ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
CHAIRMAN
GARY PIERCE
COMMISSIONER
SANDRA D. KENNEDY
COMMISSIONER
PAUL NEWMAN
COMMISSIONER
BOB STUMP
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF BELLA VISTA WATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	Docket No. W-02465A-09-0411
IN THE MATTER OF THE APPLICATION OF NORTHERN SUNRISE WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	Docket No. W-20453A-09-0412
IN THE MATTER OF THE APPLICATION OF SOUTHERN SUNRISE WATER COMPANY., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	Docket No. W-20454A-09-0413
IN THE MATTER OF THE JOINT APPLICATION OF BELLA VISTA WATER CO., INC., NORTHERN SUNRISE WATER COMPANY, INC., AND SOUTHERN SUNRISE WATER COMPANY., INC., FOR APPROVAL OF AUTHORITY TO CONSOLIDATE OPERATIONS, AND FOR	Docket No. W-02465A-09-0414 Docket No. W-20453A-09-0414 Docket No. W-20454A-09-0414

THE TRANSFER OF UTILITY ASSETS TO BELLA VISTA WATER CO., INC, PURSUANT TO ARIZONA REVISED STATUTES 40-285.

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Direct Testimony of Jodi A. Jerich, William A. Rigsby, Rodney L. Moore and Timothy J. Coley in the above-referenced matter.

RESPECTFULLY SUBMITTED this 12th day of April, 2010.

Michelle L. Wood
Counsel

AN ORIGINAL AND THIRTEEN COPIES of the foregoing filed this 12th day of April, 2010 with:

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BELLA VISTA WATER COMPANY, INC.

DOCKET NO. W-02465A-09-0411 ET AL.

DIRECT TESTIMONY

OF

JODI A. JERICH

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 12, 2010

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INTRODUCTION

Q. Please state your name, occupation and business address for the record.

A. My name is Jodi Jerich. I am the Director of the Arizona Residential Utility Consumer Office (RUCO). My business address is 1110 W. Washington Street, Suite 220, Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Governor Brewer appointed me to serve as the Director of RUCO in February 2009. The State Senate found my qualifications met the statutory requirements found in Arizona Revised Statutes §40-462 and confirmed my appointment. As Director, I oversee and approve all testimony and briefs filed by RUCO. In consultation with my staff, I direct the public policy decisions of the office.

From 2003 through 2005, I was employed at the Arizona Corporation Commission as the Policy Advisor to Corporation Commissioner Mike Gleason. In that role, I advised the Commissioner on matters coming before the Commission including water utility rate cases. I was actively involved in the utility policy-making decisions of that Commissioner's office.

Except for the time I was employed by the Commission, from 1997 through 2008, I was employed at the Arizona House of Representatives. I held several positions during my tenure, eventually becoming Chief of Staff and Counsel to the Majority Caucus. Relevant to the question at hand, I advised Legislators on matters involving water, energy, Commission jurisdiction and utility security.

In 2006, when Governor Janet Napolitano appointed Barry Wong to fill the Commission seat vacated by Commissioner Marc Spitzer's appointment to the Federal Energy Regulatory Commission (FERC), I took a leave of absence from the Legislature for a short time in order to assist Commissioner Wong establish his office.

Finally, I am a Phi Beta Kappa graduate of Indiana University. I also have a juris doctorate degree from Indiana University and am a member of the Arizona and Tennessee bars.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain RUCO's position on rate consolidation in this docket.

RATE CONSOLIDATION

Q. What is "rate consolidation"?

A. Rate consolidation is also commonly known as "single tariff pricing". In addition, the terms "uniform rates", "standard tariff rates", "unified rates" and "rate equalization" are sometimes used. My testimony will refer to this concept as rate consolidation.

Rate consolidation is the use of a unified rate structure for multiple water utility systems that are owned and operated by a single utility, but that may not be contiguous or physically interconnected. Through rate consolidation, all customers of the utility pay the same rate for service, even though the individual systems providing service may vary in terms of the number of customers served, operating characteristics and stand alone costs.

Q. What is RUCO's position on rate consolidation in this docket?

A. RUCO supports stand alone rates. As it has in the past, RUCO continues to contend that separate rates for separate systems respect the principle of traditional cost of service ratemaking and ensure that those who use the utility services pay for them. However, consistent with RUCO's position in the pending Arizona Water rate case (Docket No. W-01445A-08-0440), RUCO will not oppose consolidated rates if the Commission finds that such rate design is in the public interest.

Along with this testimony, RUCO is filing revenue requirement testimony, cost of capital testimony and supporting schedules for a consolidated system. On April 23, 2010, RUCO will submit its recommended testimony and stand alone testimony schedules for revenue requirement and cost of capital for each of the three systems. Additionally, RUCO will file rate design testimony for ***both*** a consolidated and stand alone basis. At that time, RUCO will also file testimony providing its rationale and analysis of public policy regarding its position on rate consolidation.

Q. Does this conclude your testimony?

A. Yes.

BELLA VISTA WATER COMPANY, INC.

DOCKET NO. W-02465A-09-0411 ET AL.

DIRECT TESTIMONY

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 12, 2010

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INTRODUCTION

Q. Please state your name, position, employer and address.

A. My Name is Timothy J. Coley. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Appendix 1, which is attached to this testimony, describes my educational background and includes a list of the rate cases and regulatory matters in which I have participated.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is restricted to two issues, which are Bella Vista Water Company's as consolidated ("BVWC" or "Company") requested levels of accumulated deferred income taxes and central office cost allocations.

Q. What other RUCO witnesses will be filing direct testimony in this proceeding?

A. RUCO Director Jodi Jerich will sponsor direct testimony on RUCO's rate design policy positions. RUCO witness, Mr. Rodney L. Moore, will addresses all of the remaining rate base and operating income adjustments. Mr. Moore will also sponsor RUCO's direct testimony on rate design. RUCO witness, Mr. William A. Rigsby, sponsors RUCO's recommended overall cost of capital in his testimony. The test year utilized by the Company in connection with the preparation of this application is the 12-month period that ended March 31, 2009.

Q. Are you providing testimony for each of the three Liberty Water systems on a stand alone basis?

A. No. In this round of testimony I am providing testimony on a consolidated basis. As explained in the direct testimony of RUCO Director Jodi Jerich, RUCO will present schedules on a stand alone basis when RUCO's direct testimony on rate design is filed on April 23, 2010. At that time I will provide my recommendations for BVWC, NSWC and SSWC on a stand alone basis.

BACKGROUND

Q. Please describe your work effort on this project.

A. I recently provided revenue requirement testimonies and schedules in Rio Rico Utilities, Inc. ("RRUI") in Docket No. WS-02676A-09-0257, which is owned by the same parent Company, Algonquin Power Trust Fund ("APTF" or "Fund"), that owns BVWC in this case. RUCO employed the same methodologies in the instant case that was utilized in the RRUI case. The methodologies will be fully explained here in my testimony for both of my adjustments to ADIT and the central office cost allocations accordingly.

Q. Please identify the Schedules and Exhibits you are sponsoring.

A. I am sponsoring Schedules for BVWC that are numbered RLM-5, which relates to ADIT, and RLM-11, which relates to the central office cost allocations, and RUCO Exhibits 1 through 4.

SUMMARY OF ADJUSTMENTS

Q. Please summarize your two adjustments to the rate base and operating income contained in your testimony.

A. My testimony addresses the following two issues as follows:

Rate Base

<u>RUCO Rate Base Adjustment #3 – Accumulated Deferred Income Taxes</u>

This adjustment allocates the parent Company's, APTF, 2008 accumulated deferred income tax ("ADIT") balances based on BVWC's total purchase price to APTF's 2008 total assets. RUCO's ADIT adjustment reduces BVWC's ADIT asset balance by $1,458,278. The Company had requested an ADIT asset, which increases rate base. However, RUCO's allocation of the parent Company's ADIT liability balance recognizes an ADIT liability balance of $1,284,949, which is a reduction to rate base.

Operating Income

<u>RUCO Operating Income Adjustment #4 – Central Office Cost Allocations</u>

This adjustment removes some central office cost allocations that RUCO finds unnecessary and excessive for the provisioning of water service. There were a number of invoices that either should <u>not</u> have been charged to ratepayers or should have been directly charged to the affiliate causing the costs. RUCO's adjustment reduces the Outside Services – Other account by $144,927.

REQUIRED REVENUE

Q. Please summarize the results of RUCO's analysis of the Company's filing and state RUCO's recommended revenue requirement.

A. RUCO's witness, Mr. Moore, addresses RUCO's recommended overall revenue requirement for BVWC in his testimony.

RATE BASE ADJUSTMENT

RUCO Rate Base Adjustment #3 – Accumulated Deferred Income Tax

Q. Did the Company make a pro-forma adjustment in its rate application to the test-year end ADIT balance that further increases BVWC's rate base?

A. Yes.

. . .

Q. What are ADIT's?

A. ADIT is a balance sheet item that is derived through the normalization of income tax expense on the income statement. ADIT's can be classified as either an ADIT Liability ("ADTL") or ADIT Asset ("ADTA"). An accounting department may manage deferred tax liabilities and assets in a way that helps maximize a company's net income for external financial accounting reporting purposes. On the other hand, an accountant may seek to minimize the company's net income for purposes of the Internal Revenue Service ("IRS") for tax liability reporting purposes in a given fiscal tax year.

ADIT's are created by temporary inter-period timing differences between the book and taxable income treatment of certain accounting events and transactions. These differences typically originate in one period and reverse in one or more subsequent periods. For utilities, the largest such timing difference is the extent to which accelerated tax depreciation generally exceeds straight-line book depreciation during the early years of an asset's service life.[1] ADIT represents the cumulative net deferred tax amounts as shown in Table 1 on the following page:

[1] South Dakota Public Utilities Commission, Testimony of Witness Kyle Sem, Docket EL08-030, page 47.

Table 1[2]

Utility Company
Accounting for Deferred Income Taxes

	Tax Deductions					
Year	Books Straight-line Depreciation	Tax Accelerated Depreciation	Cost of Removal	Net Timing Difference	Deferred Income Taxes	Accumulated Deferred Income Taxes
1	$ 102,000	$ 400,000		$ 298,000	$ 119,200	$ 119,200
2	102,000	240,000		138,000	55,200	174,400
3	102,000	144,000		42,000	16,800	191,200
4	102,000	108,000		6,000	2,400	193,600
5	102,000	108,000		6,000	2,400	196,000
6	102,000			(102,000)	(40,800)	155,200
7	102,000			(102,000)	(40,800)	114,400
8	102,000			(102,000)	(40,800)	73,600
9	102,000			(102,000)	(40,800)	32,800
10	102,000		20,000	(82,000)	(32,800)	
	$ 1,020,000	$ 1,000,000	$ 20,000			

Assumptions:

Asset Cost	$ 1,000,000
Income Tax Rate	40%
Cost of Removal	$ 20,000

Depreciation -

Book – 10-years; Straight-line

Tax - 5 years; DDB with Switch to SL

Note: The Deferred Income Tax amount in Year 1 is derived from multiplying the Net Timing Difference of $298,000 by the assumed Income Tax Rate of 40 percent = Deferred Income Tax of $119,200. The Accumulated Deferred Income Taxes are the accumulation of each year's Deferred Income Tax amount.

[2] Carl W. Dabelstein, CPA, Income Taxes in Ratemaking, Exhibit No. 8.

The illustrative example shown in Table 1 assumes a single asset with no further ongoing investment in capital assets. Using that example, one can see how the reversal of the ADTL reverses itself in the later years of its useful life and to zero in the last year.

Q. Are utilities a capital intensive industry that requires continuous investments in new plant assets?

A. Yes.

Q. Does RUCO believe that a utility company that is making ongoing capital investments in plant could conceivably and logically have a deferred tax liability or a reduction to rate base on its books indefinitely?

A. Yes. Utilities are constantly adding and repairing new and old infrastructure all the time. This requires additional investment on behalf of the utility year after year. When a utility's asset (rate) base continues to grow each year, the total accelerated depreciation will continue to exceed book depreciation, but for individual assets, at some point book depreciation will be larger.[3] Another source that I researched stated the following:

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[3] E. Busch and J. Johnson, "Treatment of Income Taxes In Utility Ratemaking," A White Paper Prepared for The Oregon Legislative Assembly By Public Utility Commission of Oregon Staff; February 2005, page 7 of 17.

> New investments that cause the level of depreciable assets to at least remain constant over time can effectively delay that deferred tax liability indefinitely.[4]

RUCO's analysis determined that BVWC has continually added plant since its last rate case Decision No. 65350. Therefore, accelerated tax depreciation will be greater than straight-line book depreciation, which in itself would result in lower operating and hence, less income tax payable to the IRS versus income tax expense embedded in ratepayers' water rates. That scenario creates a deferred tax liability, which is a reduction to rate base. Therefore, BVWC should be reflecting a deferred tax liability rather than an asset that increases rate base.

Q. Did RUCO review the parent Company's, APTF, balance sheet provided in its 2008 Annual Report to assess the amount of ADIT reported there?

A. Yes. APTF reported a net ADIT Liability in the amount of $83,951,000, as shown in RUCO Exhibit 1. When that amount is allocated down from APTF to its affiliates in some logical, rationale, and/or systematic[5] manner as RUCO did, that would amount to a reduction in rate base rather than an addition to rate base as the Company's rate application reports.

...

[4] Source: http:www.utdallas.edu, Accounting Text, Chapter 16, Accounting for Income Taxes, page 3 of 20.

[5] As prescribed in Statement of Financial Standards No. 109, Section 40, page 19.

Q. Did BVWC report any ADIT's in the Company's Annual Reports that it files with the Commission annually?

A. RUCO reviewed the Company's last three-years (2006-2008) of Annual Reports that were filed with the Commission and no ADIT's were reported for those years (See RUCO Exhibit 2).

Q. Did Commission Decision No. 65350, docketed on November 1, 2002, in BVWC's last rate case authorize any ADIT balance in that case?

A. Yes.

Q. What did Commission Decision No. 65350 authorize for BVWC regarding the Company's ADIT balance in that case?

A. Commission Decision No. 65350 adopted an Original Cost Rate Base ("OCRB") of $7,482,520 that included an Accumulated Deferred Tax Liability ("ADTL") balance, which is a reduction to rate base, for the ADIT in the amount of $235,258.

Q. What exactly is an Accumulated Deferred Tax Liability ("ADTL"), which is a reduction to rate base?

A. The Rate Case and Audit Manual prepared by the National Association of Regulatory Utility Commissioners ("NARUC") Staff Subcommittee on Accounting and Finance in the summer of 2003 reported the following:

Deferred income taxes (DIT) arise when income tax amounts provided for book purposes differ from the amount of taxes currently due and payable. The **primary** [emphasis added] cause of the tax differences is the straight-line depreciation rates used for rate making purposes versus the accelerated depreciation rates used for federal and state income tax purposes. Under this method, there is higher depreciation expense for tax purposes than for regulatory book purposes, causing the taxes computed for regulatory books (and thus, included in revenue requirement) to be more than the taxes actually payable to the Internal Revenue Service and state taxing entities, in the early years of the asset's life. In later years, the situation reverses itself, such that the revenue requirement will reflect a lesser amount of income tax than that which is actually due and payable. This difference then becomes a source of interest-free funds, provided by ratepayers and not investors. This accumulated balance of interest-free funds (ADIT) is available to the utility to further invest until it is then needed to fund the taxes due and payable in the later years.

These differences are generally caused by both differences between IRS/State and regulatory allowed asset depreciation lives, and differences in the depreciation method (e.g., straight line versus accelerated)...

The timing differences related to life and method differences are required by the federal tax code to be *normalized.* Pursuant to normalization, the timing differences are accumulated in the DIT account and used to spread the benefits of the IRS tax policies over the economic life of the asset. This will be the **bulk** [emphasis added] of the dollars involved in DIT. The remaining items, related to basis differences, may be either normalized or *flowed-through* to customers. Under the flow-through method, income tax savings resulting from IRS tax methods are immediately used to reduce rate (i.e., revenue requirements) instead of recording the difference as a liability in the deferred tax accounts.

In looking at accumulated DIT, the auditor should look at the Schedule M of the federal (and possibly state) tax return, to determine the types of items the IRS/State computed taxes and taxes computed for regulatory purposes...

There are two ways of treating DIT in the revenue requirement computation. In the first, the accumulated DIT is deducted from rate base. This appropriately recognizes that these are interest free funds upon which the utility should not earn a return. In the second, the accumulated DIT is not deducted from rate base, but instead, is treated as zero cost element of the capital structure. In doing so, a lower average authorized rate of return is applied to a higher rate base. In concept, the methods should derive similar results. The auditor should become familiar with the jurisdiction's policy and practice on this matter, so it is properly reflected in the rate computation.[6]

[6] Rate Case and Audit Manual prepared by the National Association of Regulatory Utility Commissioners ("NARUC") Staff Subcommittee on Accounting and Finance in the Summer of 2003, pages 24-26.

Q. The above referenced source addressed two methods of addressing Accumulated Deferred Income Taxes. Which method does Arizona utilize in revenue requirement computation?

A. Arizona utilizes the normalization method that spreads the DIT benefits of the IRS tax policies over the economic life of the asset, which reduces rate base.

Q. Do you have another source that supports RUCO's position regarding the ADIT issue?

A. Yes. A paper[7] prepared for the Public Service Commission of Utah cited the following:

> Deferred income taxes are created when components of income or expense are recognized in different time periods for financial reporting purposes than for income tax purposes. The Federal income tax laws necessarily require some items to be reflected differently for income tax reporting purposes. Some of these differences are the result of efforts to protect the federal government from abuse by tax payers. Other differences are the result of legislative efforts to stimulate economic activity. These efforts often take the form of accelerated depreciation or an immediate write-off of investments in fixed assets. When these assets are deducted more quickly on income tax returns than for financial reporting purposes the current burden of income tax payments are reduced. These accelerated write-offs will eventually be exhausted and the company's taxable income will increase to a level that is above book income relative to those specific items...

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[7] Edwin C. Farrar, CPA for the Garrett Group, LLC; Normalization of Deferred Income Taxes for Rocky Mountain Power; May 28, 2009, pages 1-2.

The income tax issues related to the establishment of utility rates can be complicated. Regulatory agencies sometimes require that advantageous tax provisions be flowed-through to ratepayers by including those adjustments in the calculation of the income tax component of the revenue requirement. However, Congress has restricted this practice so that temporary differences related to accelerated depreciation cannot be used to directly benefit ratepayers. Instead, regulatory bodies must use the same depreciation rates for both the revenue requirement calculation and for the income tax calculation contained in the revenue requirement. The regulator is then permitted to use the accumulated balance of deferred income taxes that results from this treatment as a **reduction** [emphasis added] to the rate base. This requirement results in an interperiod tax allocation because income tax deductions are recognized when the asset is depreciated for ratemaking purposes instead of when the deduction is actually taken on the tax return. The use of the interperiod tax allocation to calculate components of the revenue requirement and to calculate income tax expense and the **deduction** [emphasis added] of the accumulated deferred income tax balance from the rate base is known as income tax normalization... With normalization, the balance of accumulated deferred income taxes may be **deducted** [emphasis added] from rate base as a source of cost free capital. The ratepayer will realize a reduction in rates under full normalization equal to the Commission authorized pretax return on the balance of accumulated deferred income taxes...

Q. What is an Accumulated Deferred Tax Asset ("ADTA")?

A. An ADTA is listed on a company's balance sheet to document or record an event/situation where the Company will likely realize a reduction in future income taxes due to an asset. In other words, an ADTA is a future tax benefit. In order for the company to benefit from a deferred tax asset, a company first deducts the expense on its accounting books. Tax breaks are then provided at a later date. Warranties and Net Operating Losses ("NOL") are good examples of ADTA. Generally Accepted Accounting Principles ("GAAP") allows a company to make estimates on their future warranty expense based on how many returns they think they will get and records the estimated expense on its books. However, the IRS will not allow the recognition of the estimated warranty expense until the actual event occurs, and as a result, shareholder income is lower than taxable income. An ADTA is similar to a prepaid tax. Here is an example that contains numbers; a company may have an ADTA of $10,000 listed on its books. If the company earns $50,000 in income prior to taxes, the company can deduct the $10,000 ADTA from the total taxable income. As a result, the company is only required to pay taxes on the $40,000.

. . .

Q. Besides Modified Accelerated Cost Recovery System ("MACRS"), what other tax laws exist within the Internal Revenue Code ("IRC") that allows a company to write-off capital investments and plant more quickly on its income tax returns than for financial / ratemaking purposes?

A. Two other tax laws come to mind that allow a company to immediately write-off some portion of investments in fixed assets. The first is the Internal Revenue Code ("IRC") Section 179 Expense, which allows a company to deduct up to $250,000 in the first year of the asset's cost for qualified property. The second IRC option for a company is the 2008 bonus depreciation, which allows a company to immediately write-off 50 percent of the cost in the fixed asset the first year it is placed in service. Both of those options are the result of legislative efforts to stimulate economic activity. When these assets are depreciated more quickly on income tax returns than for financial reporting purposes, the company's current burden of income tax payments is reduced. Thus, ratepayers are paying more income taxes through their rates than the company is actually paying the IRS from the greater depreciation income tax deductions. The reason that the ratepayers are contributing more income tax expense through rates than the company is actually paying the IRS is primarily because the ratemaking process is prohibited from using the greater accelerated depreciation methods deduction when setting the income tax expense levels for rates. The difference between 1) the higher income tax expense authorized by the Commission in setting rates and 2) the lower income tax the company actually pays to the IRS is 3) the deferred income tax liability, which is a *reduction* to rate base.

Q. Please provide a hypothetical scenario illustrating how the special depreciation deductions affect depreciation expense and thus, taxable income.

A. Assume a company completed its second full year of operations ending on December 31, 2008 and has a rate base of $12,000,000. It added $2,500,000 of plant additions during 2008, which are included in the $12,000,000 rate base. The new plant additions have a useful life of 10 years, which qualify for MACRS tax depreciation of 150 percent declining balance ("DB") method using the half-year ("HY") convention.

Assume, the Commission predetermined just and reasonable rates prior to the company's first year of operations based on the company's rate base, estimated allowable expense levels, and its cost of capital. The Commission estimated an allowable depreciation expense of $1,200,000, calculated using straight-line depreciation, to be recovered annually through the company's ratepayers' rates. The Commission also authorized an annual income tax expense of $406,182 to be collected in rates paid by the utility's customers.

. . .

The company elected not to recover any part of the cost of the new plant additions under IRC Section 179 Deduction[8] but did choose to claim the 50 percent Special Depreciation Allowance or Bonus Depreciation as some people refer to it. The company can take the 50 percent special deduction allowance to recover half of the cost of qualified property, placed in service during the 2008 tax year. The allowance applies only for the first year you place the property in service. The company claims an additional 50 percent special allowance after electing or not electing to take the section 179 deduction. The allowance is an additional 50 percent deduction that can be taken after any section 179 deduction and before the calculation of regular MACRS depreciation.

The order of the depreciation election process is 1) first, elect to take or not take the section 179 deduction, 2) claim or not claim the special 50 percent deduction allowance, and then 3) figure the regular MACR's depreciation on the new tax basis from the adjustments from the elections and claims in one and two above.

...

[8] IRS Publication 946: The total amount you can elect to deduct under section 179 for most property placed in service in 2008 generally cannot be more than $250,000.

Q. Please take us through the process of calculating the tax depreciation deductions for these special IRS allowances for the $2,500,000 of new plant additions.

A. The company would first choose to either elect or not elect the section 179 deduction, which is up to $250,000. In this hypothetical scenario, the company chose not to elect the section 179 deduction. The company did choose to claim the special depreciation allowance of 50 percent of the $2,500,000 new 2008 plant additions. The Company deducts half of the plant additions for a total tax deduction of $1,250,000. The remaining $1,250,000 is the company's new tax basis in the newly added asset. The company's book basis in the plant additions is still $2,500,000. The difference of $1,250,000 in the tax versus book basis is due solely to the company claiming the special 50 percent depreciation allowance. Hence, the special deduction has lowered the taxable operating income by an additional $1,250,000 over financial book reporting. Thus, the actual income tax payable to the IRS is lower than that reported on the company's books. The company can now figure its regular annual MACRS depreciation for tax purposes and its straight-line book depreciation on the new plant additions.

Using the MACRS 150 percent DB tax depreciation method and the HY convention, the company is allowed to deduct 7.5 percent MACRS tax depreciation on its adjusted $1,250,000 tax basis on the new plant additions or $93,750 ($1,250,000 X (15% / 2)). Under straight-line book depreciation method using the HY convention, the company is allowed a 5 percent depreciation expense deduction for the first year the plant is placed in service or $125,000 ($2,500,000 X (10% / 2)). The reason why the straight-line book depreciation expense of $125,000 is greater than accelerated tax depreciation expense amount of $93,750 is because the company's book basis in the newly added plant is $2,500,000 whereas the tax basis of the new plant was now only $1,250,000 due to the special 50 percent depreciation election.

For tax purposes, the company is allowed to deduct the additional special depreciation allowance of $1,250,000 plus the regular annual MACRS depreciation expense calculation of $93,750 for a total depreciation deduction of $1,343,750 ($1,250,000 + $93,750) in the first year that the plant is placed in service. For book and ratemaking purposes, GAAP allows only a straight-line depreciation deduction of $125,000 ($2,500,000 X (10% / 2)) in the first year that the plant is placed in service. Thus, taxable operating income in that year is $1,218,750 ($1,343,750 - $125,000) less for tax purposes than book purposes because of the greater tax depreciation deduction generated by claiming the special 50 percent deduction allowance. Assuming a 38.6 percent[9] federal and state income tax rate, this scenario alone would create an income tax savings of

[9] This is the effective federal and state income tax rate (38.6%) for Bella Vista Water Company in the instant case.

$470,438 for the company compared to its recorded book / ratemaking income tax expense amount. The $470,438 tax savings represents a deferred tax liability, which is a reduction to rate base.

The deferred tax calculation for the hypothetical DIT scenario is summarized and shown in the table below:

Plant Additions	Book Depreciation	1st Year Tax Depreciation Rate	Tax Depreciation	Difference	Tax Rate	Deferred Tax
2,500,000	125,000	53.75%	1,343,750	1,218,750	38.60%	(470,438)

As shown in the last column of the table above, the deferred income tax related to the bonus depreciation that the company claimed and its first year HY convention for MACRS depreciation deduction is a liability of $470,438, which is a *reduction* to rate base for the interest free funds the company over collected from the ratepayers for income taxes.

Q. For BVWC as consolidated, please explain the Company's Schedule B-2, page 5, line 9, fixed assets component of its deferred income tax calculation.

A. That line of schedule shows the Company's adjusted book basis in its fixed assets to be $15,565,344. It also shows BVWC's adjusted tax basis in its fixed assets to be $9,232,954. Thus, the Company's tax basis in its fixed assets component is $6,332,390 less than its book basis. That's a sensible and logical result because the accelerated tax depreciation decreases the tax basis faster than the slower straight-line book depreciation method, which has been thoroughly illustrated in the previous several pages of my testimony. When the fixed assets' tax basis is less than the book basis, as in BVWC's case, this creates a deferred income tax liability that is a reduction to rate base. Isolating the fixed assets component of the Company's deferred income tax calculation, the calculation of the DIT takes the difference between the book basis of $15,565,344 and the tax basis of $9,232,954, which is $6,332,390, and multiplies the difference by the effective tax rate of 38.6 percent. By multiplying $6,332,390 by 38.6 percent, the product equals the deferred income tax liability of $2,444,232.[10] As RUCO has demonstrated through sources and illustrations throughout this testimony, that is what creates the **bulk** of a utilities ADIT.

Q. Does RUCO agree with the Company's fixed asset component of its ADIT calculation that results in a non-current future tax liability?

A. RUCO generally agrees with the Company's methodology in determining the fixed assets component of its ADIT balance. However, RUCO made two plant adjustments that would result in a small difference in the fixed assets component of the Company ADIT calculation.

[10] There is an approximate $71 rounding issue.

...

Q. What two adjustments did RUCO make that would make a small difference in the Company's fixed assets component of its ADIT calculation?

A. RUCO reduced the Gross Utility Plant in Service ("GUPIS") by $1,940 and increased Accumulated Depreciation by $3,610. Those adjustments are fully explained in RUCO witness, Mr. Moore's, testimony.

Q. What impact would Mr. Moore's adjustments have on the Company's fixed assets component of BVWC's ADIT calculation?

A. The impact of Mr. Moore's two adjustment referenced above would reduce the fixed assets component, which is an ADIT liability, by $2,142 from $2,444,232 to $2,442,090.

Q. What other reason(s) does RUCO provide in opposing the Company's ADTA balance?

A. Most importantly, beyond the issues of what RUCO has already discussed in its testimony, RUCO takes issue with the Company's attempt to create an ADTA, which increases rate base, solely by using non-investor supplied Advances in Aid of Construction ("AIAC") funds. AIAC funds are interest free funds to which the Company has no right to earn a return on in rate base. Rightfully, AIAC is recorded as a reduction to rate base on the Company's Schedule B-1. Appropriate ratemaking already allows the

Company a return of AIAC through depreciation expense and should be denied the ability to also earn a return on such non-investor supplied funds until the AIAC is refunded. Any future income taxes associated with the AIAC are already reflected in the rates through the depreciation expense of AIAC for ratemaking purposes.

Q. What is RUCO's recommendation regarding the ADIT?

A. RUCO recommends that the Commission follow the guidelines set forth in the Statement of Financial Accounting Standards ("SFAS") No. 109 that was issued in February 1992 and specifically for companies that file consolidated tax returns as APTF does with its affiliate BVWC.

Q. Please state what those guidelines are in SFAS No. 109.

A. Section 40, page 19, of SFAS No. 109 states the following guidelines whenever "The consolidated amount of current and deferred tax expense for a group that files a consolidated tax return shall be allocated among the members of the group when those members issue separate financial statements" as is the case with BVWC for this rate proceeding. SFAS No. 109 further states the following:

> **Separate Financial Statements of a Subsidiary**
> 40. This Statement does not require a single allocation method. The method adopted, however, shall be systematic, rationale, and consistent with the broad

> principles established by this Statement. A method that allocates current and deferred taxes to members of the group by applying this Statement to each member as if it were a separate taxpayer meets those criteria...

Since the parent company, APTF, elected to file a consolidated tax return showing an ADIT liability, then SFAS No. 109 requires apportionment of the liability among the affiliates and precludes the listing of an ADIT asset for BVWC. The excerpt of SFAS No. 109 is provided in this testimony as RUCO Exhibit 3.

Q. How has RUCO allocated, as set forth in Section 40 of SFAS No. 109, the parent Company's net deferred income tax liabilities that are reported on APTF 2008 Annual Report balance sheet?

A. RUCO adopted the prescribed SFAS 109 method to allocate APTF's net deferred income tax liabilities. RUCO's allocation factor is based on the consolidated BVWC's total asset cost ($15.1 million) divided by Algonquin Power Trust Fund's total assets ($978.1 million) to arrive at BVWC's asset ratio, as reported in its 2008 Annual Report. RUCO's allocation method adopted is systematic, rationale, and consistent with the broad principles established by Section 40 of SFAS No. 109. It allocates current and deferred taxes to members of the group by applying SFAS No. 109 to each member as if it were a separate taxpayer, which meets the criteria established therein. These deferred income tax liabilities are attributable to all APTF's affiliates. The ratepayers of BVWC are entitled to those tax benefits that it contributed towards.

...

Q. What is RUCO's recommendation for BVWC's ADIT balance?

A. RUCO recommends adjusting the Company's ADIT Asset balance by $1,458,278 for an ADIT Liability balance of $1,284,949 for BVWC. This adjustment reflects SFAS No. 109 criteria of allocating the tax benefits that the ratepayers are entitled, which reduces rate base accordingly. This adjustment is on Schedule RLM-2 with the supporting detail on Schedules RLM-3 and RLM-5.

OPERATING INCOME ADJUSTMENT

RUCO Operating Income Adjustment #4 – Central Office Cost Allocations

Q. Did RUCO make an adjustment to the Company's Central Office Cost Allocations?

A. Yes.

Q. What is RUCO's rationale for making the adjustment to the Central Office Cost Allocations?

A. First, RUCO believes that most of the expenses being allocated to the Arizona Utility Infrastructure regulated affiliates, including BVWC, are unnecessary and not directly attributable in the provisioning of water service. Second, the unregulated parent Company, Algonquin Power Income Fund ("APIF" or "Fund"), allocated the costs down to Algonquin Power Trust ("APT"), which the Company claims is another unregulated affiliate. RUCO reviewed the Fund's organizational chart of all its affiliates and could not ascertain if APT is even an affiliate because APT is not on the organizational chart. Third, the Fund allocated costs down to APT, which are later allocated to BVWC that included Super Bowl tickets, hockey tickets, basketball tickets, gold watches etc. and other licenses, fees, and permits that, should be totally disallowed for ratemaking purposes. Fourth, RUCO does not agree with the allocation factors utilized by APTF. Finally, RUCO has concerns with the allocation and documentation methods between an unregulated affiliate, APT, and regulated affiliates such as BVWC. The NARUC Guidelines for Cost Allocations and Affiliate Transactions, attached as RUCO Exhibit 4, states that, "The prevailing premise of these Guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities..." The Guidelines also suggest that "to the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided."

Q. What is the definition of direct costs and indirect costs?

A. *Direct costs* are those costs that can be traced easily and accurately to a cost object. The more costs that can be traced to the object, the greater the accuracy of the cost assignments. Establishing traceability is a key element in building accurate cost assignments. Tracing costs to cost objects can occur in one of two ways: (1) direct tracing and (2) driver tracing. Ideally, all costs should be charged to cost objects using direct tracing.

Indirect costs cannot be traced to cost objects. At the very least, direct and indirect cost assignments should be reported separately.

Q. Have any of APT allocated costs been reported separately as either a direct cost or indirect cost?

A. No. All the costs have been pooled into one grouping that are classified as indirect costs and fully allocated to each of the Fund's affiliates.

Q. Please describe the Fund's process of allocating the pooled APT costs.

A. APT pools costs from twelve distinct areas, such as audit, tax services, unit holder communications, trustee fees, and escrow/transfer fees etc. The total amount of these costs in Canadian dollars is $4,104,971 for the test-year. Next, the Company arrives at an allocation factor of 26.98 percent to be allocated to the seventeen utilities that the Fund owns. The 26.98 percent allocation factor is derived by dividing the seventeen utility companies by the 63 total companies to which it claims to own. RUCO does not agree that the Company has just 63 total companies but rather 70 as indicated in its 2008 APIF Annual Report. Then, APT converts the Canadian dollars to US dollars for a total cost of $3,697,367 and multiplies it by the 26.98 percent allocation factor that it claims the seventeen utility companies are attributable to arrive at $997,702 US dollars, which RUCO also disagrees. Finally, the $997,702 of US dollars is allocated to each of the seventeen utility companies based on each utility's customer count. BVWC's consolidated customer count represents approximately 14.52 percent of the total 64,094 customers in the seventeen utility companies. The Company ultimately allocates 14.52 percent of the $997,702 to BVWC, which is $144,906.

Q. If RUCO does not agree with the Company's first allocation factor of 26.98 percent, what does RUCO recommend that allocation factor be?

A. RUCO does not agree with the Company's proposed allocation methodology but has no remedial solution for a better overall allocation methodology. RUCO utilizes the Company's proposed methodology in making our recommended adjustment. The Company computes the first allocation factor of 26.98 percent by dividing the 17 utilities by the 63 total affiliates, (17 / 63), that it claims to own. RUCO disagrees with the variable of 63 total affiliates being used. The 2008 Annual Report identifies 70 total companies to which the Fund owns. A more accurate allocation factor for the seventeen utility companies would be 24.29 percent (17 / 70).

Q. Does RUCO agree with the Company's total allocated cost of $997,702 US dollars to be shared (based on customer count) among the seventeen utility companies that the Fund owns?

A. No. This disagreement with the Company is nearly the entire amount of RUCO's recommended adjustment. In addition, RUCO's calculation does not convert the Canadian dollars to US dollars until the end of the calculation in order to capture the most recent known and measurable conversion rate.

Q. What is RUCO's position regarding the Company's allocated APT costs of $997,702 US dollars to be shared (based on customer count) among the seventeen utility companies that the Fund owns?

A. For all the reasons previously stated by RUCO, only a very small portion of the $997,702 US dollars is attributable to BVWC. RUCO cannot directly trace any of those costs to BVWC. The invoices essentially contain no detail. Other costs are directly attributable to the Fund's other affiliates, i.e. implementation of Sanger electrical location and annual memberships for the Canadian Wind Energy Association etc. I also saw an invoice for a man's Fossil watch. At the very most, only a fraction of the costs would appear to be of some benefit to BVWC's water utility ratepayers in Arizona.

...

Q. What APT expenses does RUCO believe could be attributable to BVWC?

A. RUCO's analysis and review determined that the audit, tax services, legal – general, and depreciation expenses could possibly benefit the ratepayers of BVWC to some minor extent.

Q. What amount of those expenses does RUCO believe could possibly benefit BVWC in the provisioning of utility service?

A. RUCO recommends the Commission allow no more than 25 percent of the APT audit, tax services, legal – general, and depreciation expenses and disallow 100 percent of the other APT expense as being much more attributable to the Fund's other operating affiliates and shareholders.

Q. Does RUCO agree with the Company's methodology in allocating the APT costs to BVWC by customer count?

A. RUCO is in general agreement to allocate RUCO's recommended level of APT expenses to BVWC by customer count. However, other methods could be appropriate too. RUCO did recommend correcting the Company's 26.98 percent allocation factor to 24.29 percent. RUCO's main concern with the APT cost allocations is not so much the Company's allocation methodology but rather the expenses are inappropriate and unnecessary to the provision of water utility service and are in large part unsupported by detailed invoices.

Q. Does RUCO believe BVWC would incur the APT type of expenses if it were a stand-alone utility and not multi-layered with corporate allocations by the non-regulated parent and affiliates?

A. RUCO believes that the stand alone companies which are included in BVWC as consolidated would incur some of the types of expenses (e.g., audit, tax services, and legal–general expenses) that APT was allocating down to its affiliates, but certainly not the majority of the type of expenses being allocated by APT. RUCO will provide further analysis in surrebuttal testimony comparing other Arizona utility companies to companies structured with shared service models such as BVWC.

Q. What adjustment did RUCO make to Outside Services – Other account in direct testimony to remove the majority of the APT related costs?

A. RUCO's adjustment removes $144,927 from the Outside Services – Other account of BVWC. This adjustment is shown on Schedules RLM-6 and RLM-7 with the details appearing in RLM-11.

Q. Does this conclude your testimony?

A. Yes, it does.

APPENDIX 1

Qualifications of Timothy J. Coley

WORK HISTORY

July 2000 – Present: **RESIDENTIAL UTILITY CONSUMER OFFICE,** Phoenix, Arizona
Public Utilities Analyst V. The Residential Utility Consumer Office (RUCO) is a consumer advocate group providing residential consumers a voice in utility regulation and backed by a professional staff with legal and financial expertise. Responsibilities include: audited, reviewed and analyzed public utility companies various filings; prepared written testimony, schedules, financial statements, and spreadsheet models and analyses. Testified and stand cross-examination before the Arizona Corporation Commission.

January 2000 - April 2000: **JACKSON HEWITT TAX SERVICE,** Phoenix, Arizona
Tax Preparer. Interviewed clients, determined tax situation, and explained how the tax laws benefited them in their specific situation. Ensured that each customer received every deduction that they were entitled. Prepared individual and business income tax returns, which best utilized each specific situation that minimized their tax obligations.

May 1998 - November 1999: **BENEFITS CONSULTING,** Cypress, Texas
Consultant Assistant. The consulting firm specialized in alleged medical claim charges brought against the government of Harris County in Houston, Texas. Assisted in the review, examination, and analysis of the attested charges. Determined if the purported medical claim charges were prudent, customary, and reasonable for the alleged sustained injuries. The firm analyzed cases for both the County's Risk Department and Attorneys Office.

January 1992 - April 1998: **PHOENIX SERVICES,** Villa Rica, Georgia
Owner. Provided landscaping services primarily in a high growth gated community where the Property Owners' Association approved mandated ordinances to be strictly adhered and abided by. Coordinated and supervised all aspects of projects from inception to completion, from master planning to site design to installation.

May 1989 - October 1991: **GEORGIA PUBLIC SERVICE COMMISSION,** Atlanta, GA
Senior Auditor. The Public Service Commission (PSC) was responsible for regulating many intrastate telecommunications, electric, and gas utility industries operating in Georgia. It was the PSC's job to ensure that consumers received adequate and reliable service at reasonable rates. It must also assure the utility companies and investors an opportunity to earn a fair rate of return on prudent investments. The Commission participated significantly in Georgia's economic health and growth. I was promoted to the PSC's Electric/Gas Division where I examined, verified, and analyzed various financial documents, accounting records, reports, ledgers, and statements. In addition, I was assigned to automate the PSC's Electric Division where I utilized a computer application process that I had developed earlier while with the (PSC) Telecommunication Division. I was later ascribed to work in conjunction with the Engineering Department and established a procedure to track and compare costs of operation and maintenance (O&M) expenses of nuclear electric generating plants. This effort determined a comparative price per kilowatt-hour produced that influenced the awareness for the company to control the O&M costs, which benefited the consumer through lower prices.

- Developed computer application system that streamlined audit procedures by 30 – 40%.
- Various other schedules were implemented to track, maintain, and control costs.

GEORGIA PUBLIC SERVICE COMMISSION (continued)

November 1986 - April 1989: **Georgia Public Service Commission,** Atlanta, Georgia
Auditor. Regulated telecommunications and also oversaw the deregulation process that was currently under way in that industry. Examined and analyzed accounting records to determine financial status of companies and prepared financial reports concerning audit findings. Reviewed data including payroll, time sheets, purchase vouchers, cash receipt ledgers, financial reports, and disbursements. Verified statewide telephone company transaction classifications and documentation.

- Developed computer application utilizing Lotus to completely automate and streamline the entire telecommunication audit process. The results saved 25% in field audit time and produced a product of professional appearance.
- Created, coordinated, and implemented "Operational Project Training" automated procedure-training program. Trained and supervised staff of five auditors.
- Computerized "Desk Audit Analysis" program that identified 11 independent telephone companies in the state of over-earning and resulted in $4.1M annual savings to the Georgia ratepayers affected.

October 1985 - October 1986: **Georgia Public Service Commission,** Atlanta, Georgia
Junior Auditor. Assisted in planning and performing telecommunication audit engagements. Examined financial records, internal management control, correspondence, bills, and records of services delivered in order to verify or recommend compliance with company specifications contained in contracts, agreements, regulations, and/or laws.

- As a special project, I was assigned to analyze the results of a survey designed to evaluate "Interest in Organizing a Multi-State Nuclear Management Review Group" by the Director of Utilities. Wrote the draft and findings for the speech that was presented to all participatory commissions.

PROFESSIONAL MEMBERSHIPS

- Elected Member of the National Honor Society for Public Affairs and Administration.
- Active Member of Delta Sigma Pi - Professional Business Fraternity.

SPECIAL TRAINING AND CERTIFICATES

- The Graduate School of Business Administration - Michigan State University; completed the Annual Regulatory Studies Program of the National Association of Regulatory Utility Commissioners.
- Completed Graduate Exit Paper on "Deregulation of the Electric Industry".
- Attended Eastern Utility Rate School in 2000 and 2005.

EDUCATION

- Currently enrolled at Arizona State University - West in the Post Baccalaureate Graduate Certificate Program in Accountancy with two courses remaining.
- Master of Public Administration, State University of West Georgia, 1997, GPA 3.5.
- BS Business Management & Administration, Minor in Economics, Sorrel School of Business, Troy State University, 1985.
- AA Business Administration, Miles Community College, 1981.

RESUME OF PUBLIC UTILITY RATE CASES & AUDITS PARTICIPATION

<u>Residential Utility Consumer Office For Years 2000 To Present</u>

Arizona-American Water Company – Docket No. WS-01303A-05-0405

Arizona Public Service Co. – Docket No. E-01345A-03-0437

Tucson Electric Power Company – Docket No. E-01933A-04-0408

UniSource Merger – Docket No. E-04230A-03-0933

Arizona-American Water Company – Docket No. WS-01303A-02-0867

Arizona Water Company (Eastern Group) – Docket No. W01445A-02-0619

Litchfield Park Service Company – Docket Nos. W-01427A-01-0487 &
SW-01428A-01-0487

Arizona Water Company (Northern Group) – Docket No. W-01445A-00-0962

Rio Verde Utilities, Inc. – Docket Nos. W-02156A-00-0321 &
SW-02156A-00-0323

Arizona-American Water Company (Paradise Valley) –
Docket Nos. W-01303A-05-0405 &
W-01303A-05-0910

Arizona-American Water Company (Mohave District) –
Docket No. WS-01303A-06-0014

Arizona-American Water Company (Sun City & Sun Cit West Wastewater) –
Docket No. WS-01303A-06-0491

Arizona-American Water Company - Docket No. W-01303A-07-0209

Chaparral City Water Company – Docket No. W-02113A-07-0551

Arizona-American Water Company - Docket No. W-01303A-08-0227

Residential Utility Consumer Office For Years 2000 To Present (cont'd)

Arizona Water Company - Docket No. W-01445A-08-0440

Far West Water & Sewer Company - WS-03478A-08-0608

Rio Rico Utilities, Inc. - WS-02676A-08-09-0257

Georgia Public Service Commission For Years 1985 – 1991

Atlanta Gas Light Company

Georgia Power Company

Atlanta Gas Light Company (Management Audit)

Georgia Power Company

Trenton Telephone Company

Fairmount Telephone Company

Ellijay Telephone Company

GTE, Inc.

ALL-TEL Telephone Company

Citizens Utilities Co.

Ball Ground Telephone Company

Lanett Telephone Company

Brantley Telephone Company

Blue Ridge Telephone Company

Waverly Hall Telephone Company

St. Marys Telephone Company

Darien Telephone Company

Statesboro Telephone Company

Statesboro Telephone Co-op

Wilkes Telephone Company

EXHIBIT 1

2008

ALGONQUIN POWER INCOME FUND

ANNUAL FINANCIAL RESULTS

ALGONQUIN POWER

Consolidated Balance Sheets

December 31, 2008 and 2007

(thousands of Canadian dollars)

	2008	2007
ASSETS		
Current assets:		
Cash	$ 5,902	$ 10,361
Accounts receivable	28,138	26,597
Prepaid expenses	2,832	3,052
Current portion of notes receivable (note 5)	485	421
Current portion of derivative assets	-	7,857
	37,357	48,288
Long-term investments and notes receivable (note 5)	27,134	30,047
Future non-current income tax asset	2,894	2,416
Property, plant and equipment (note 6)	804,965	760,677
Intangible assets (note 7)	97,398	99,529
Restricted cash	5,295	6,105
Deferred costs	243	80
Other assets (note 4)	2,844	2,737
Derivative assets	-	4,188
	$ 978,130	$ 954,067
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 34,074	$ 27,007
Distributions payable	1,587	11,649
Current portion of long-term liabilities (notes 10 and 12)	4,236	1,915
Current portion of derivative liabilities (note 8)	8,438	-
Current income tax liability (note 14)	541	669
Future income tax liability	1,191	756
	50,067	41,996
Long-term liabilities (notes 9 and 10)	293,590	281,725
Convertible debentures (note 11)	140,427	139,587
Other long-term liabilities (note 12)	28,859	23,771
Future non-current income tax liability (note 14)	85,654	80,785
Derivative liabilities (note 8)	25,116	-
Non controlling interest	12,548	21,700
Unitholders' equity:		
Trust units (note 13)	722,215	692,213
Deficit	(358,904)	(283,820)
Accumulated other comprehensive income	(21,442)	(43,890)
	341,869	364,503
Commitments and contigencies (note 18)		
	$ 978,130	$ 954,067

See accompanying notes to consolidated financial statements

Approved bv the Trustees

Ken Moore

George Steeves

1. Significant accounting policies: (continued)

(k) Foreign currency translation: (continued)

The ongoing review of the economic factors to be considered in determining whether foreign operations are integrated or self-sustaining has resulted in the determination that the Fund's operating entities in the Utility Services Division have changed to self-sustaining. This change was made as a result of the Utility Services Division entities' increasing proportion of operating, financing and investing transactions that are denominated in currencies other than the Canadian dollar. This change in method was effective at October 1, 2007 and was applied prospectively. These self-sustaining operations are translated into Canadian dollars using the current rate method, whereby assets and liabilities are translated at the rate prevailing at the balance sheet date while revenues and expenses are converted using average rates for the period. Unrealized gains or losses arising as a result of the translation of the operations of self-sustaining operations are reported as a component of Other Comprehensive Income in the Consolidated Statement of Comprehensive Income.

The Fund's remaining United States subsidiaries and partnership interests continue to be considered as functionally integrated with the Canadian operations and accounted for as integrated foreign operations.

(l) Asset retirement obligations:

The fair value of estimated asset retirement obligations is recognized in the consolidated balance sheet when identified and a reasonable estimate of fair value can be made. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The asset retirement costs are depreciated over the asset's estimated useful life and are included in amortization expense on the Consolidated Statements of Operations. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the Consolidated Statements of Operations. Actual expenditures incurred are charged against the accumulated obligation. Based on the Fund's assessments the Company does not have any significant asset retirement obligations and therefore no provision for retirement obligations has been recorded in 2008 and 2007.

(m) Income taxes:

Income taxes are accounted for using the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the date of enactment or substantive enactment.

A valuation allowance is recorded against future tax assets to the extent that it is considered more likely than not that the future tax asset will not be realized.

14. Income taxes (continued)

The tax effect of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2008 and 2007 are presented below:

	2008	2007
Future tax assets:		
Non-capital loss, debt restructuring charges and currently non-deductible interest carry forwards	$ 25,355	$ 19,561
Unrealized foreign exchange differences on US entity debt	11,674	30,003
Customer advances in aid of construction	6,768	4,414
Foreign exchange hedges and interest rate swaps	3,940	-
Total future tax assets	47,737	53,978
Less: Valuation allowance	(24,705)	(42,996)
Total future tax assets	23,032	10,982
Future tax liabilities:		
Property, plant and equipment	(95,007)	(81,567)
Intangible assets	(9,861)	(8,174)
Other	(2,115)	(366)
Total future tax liabilities	(106,983)	(90,107)
Net future tax liability	$ (83,951)	$ (79,125)

Classified in the financial statements as:

	2008	2007
Future non-current income tax asset	$ 2,894	$ 2,416
Future current income tax liability	(1,191)	(756)
Future non-current income tax liability	(85,654)	(80,785)
	$ (83,951)	$ (79,125)

Current income tax recoverable of $1,538 (2007 - $nil) is included as part of accounts receivable on the financial statements.

On June 22, 2007 legislation ("the SIFT Rules") relating to the federal income taxation of publicly-traded trusts and partnerships received royal assent. Under transitional relief the SIFT Rules will not apply to a publicly-traded trust or partnership that is a "specified investment flow through entity" (a "SIFT") which was listed before November 1, 2006 ("Existing Trust") until taxation years ending in or after 2011. The SIFT Rules do not affect the current and future tax amounts of the Fund's corporate subsidiaries.

Under the SIFT Rules, distributions of certain income by a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such income at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. A SIFT's income that is dividends or income received directly from foreign sources will continue to be taxed to unitholders under the existing rules and distributions paid by a SIFT as returns of capital will not be subject to this tax. An Existing Trust may lose its transitional relief where its equity capital grows beyond certain dollar limits measured by reference to the Existing Trust's market capitalization at the close of trading on October 31, 2006 in which case application of this tax to an Existing Trust may commence before 2011.

EXHIBIT 2

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

B

W-02465A
Bella Vista Water Company, Inc.
12725 W. Indian School Rd Suite D 101
Avondale, AZ 85323

ANNUAL REPORT

FOR YEAR ENDING

12	31	2006

FOR COMMISSION USE

ANN 04	06

PROCESSED BY:
4-18-07

SCANNED

COMPANY NAME
BELLA VISTA WATER CO., INC.

BALANCE SHEET

Acct. No.	ASSETS	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT AND ACCRUED ASSETS		
131	Cash	$ 72,882	$ 99,034
134	Working Funds		
135	Temporary Cash Investments		
141	Customer Accounts Receivable	259,421	274,222
146	Notes/Receivables from Associated Companies		
151	Plant Material and Supplies	24,451	
162	Prepayments	108,356	37,042
174	Miscellaneous Current and Accrued Assets		
	TOTAL CURRENT AND ACCRUED ASSETS	**$ 465,110**	**$ 410,297**
	FIXED ASSETS		
101	Utility Plant in Service	$ 20,200,182	$ 21,971,846
103	Property Held for Future Use		
105	Construction Work in Progress	177,580	351,197
108	Accumulated Depreciation - Utility Plant	9,804,105	9,960,835
121	Non-Utility Property		
122	Accumulated Depreciation - Non Utility		
	TOTAL FIXED ASSETS	$ 10,573,657	$ 12,362,208
	TOTAL ASSETS	**$ 11,038,768**	**$ 12,772,506**

NOTE: The Assets on this page should be equal to Total Liabilities and Capital on the following page.

COMPANY NAME
BELLA VISTA WATER CO., INC.

BALANCE SHEET (CONTINUED)

Acct. No.	LIABILITIES	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT LIABILITES		
231	Accounts Payable	$ 15,145	$ 32,839
232	Notes Payable (Current Portion)	110,732	98,645
234	Notes/Accounts Payable to Associated Companies	(350,901)	11,810
235	Customer Deposits	159,563	174,510
236	Accrued Taxes	734,851	384,956
237	Accrued Interest	20,779	18,481
241	Miscellaneous Current and Accrued Liabilities	37,929	45,248
	TOTAL CURRENT LIABILITIES	$ 728,097	$ 766,487
	LONG-TERM DEBT (Over 12 Months)		
224	Long-Term Notes and Bonds	$ 1,994,025	$ 1,987,678
	DEFERRED CREDITS		
251	Unamortized Premium on Debt		
252	Advances in Aid of Construction	4,664,209	6,140,034
255	Accumulated Deferred Investment Tax Credits	222,755	15,775
271	Contributions in Aid of Construction	489,515	503,145
272	Less: Amortization of Contributions	191,471	213,015
281	Accumulated Deferred Income Tax		
	TOTAL DEFERRED CREDITS	$ 5,185,008	$ 6,445,939
	TOTAL LIABILITIES	$ 7,907,130	$ 9,200,104
	CAPITAL ACCOUNTS		
201	Common Stock Issued	$ 1,520,080	$ 1,520,080
211	Paid in Capital in Excess of Par Value	377,948	377,948
215	Retained Earnings	1,233,610	1,674,374
218	Proprietary Capital (Sole Props and Partnerships)		
	TOTAL CAPITAL	$ 3,131,638	$ 3,572,402
	TOTAL LIABILITIES AND CAPITAL	**$ 11,038,767**	**$ 12,772,506**

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

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W-02465A
Bella Vista Water Company, Inc.
12725 W. Indian School Rd Suite D 101
Avondale, AZ 85392

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DIRECTOR OF UTILITIES

ANNUAL REPORT

FOR YEAR ENDING

12	31	2007

FOR COMMISSION USE

ANN 06	07

PROCESSED BY:
4-16-08

SCANNED

COMPANY NAME
BELLA VISTA WATER CO., INC.

BALANCE SHEET

Acct. No.	ASSETS	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT AND ACCRUED ASSETS		
131	Cash	$ 99,034	$ 82,476
134	Working Funds		
135	Temporary Cash Investments		
141	Customer Accounts Receivable	274,222	300,263
146	Notes/Receivables from Associated Companies		
151	Plant Material and Supplies		
162	Prepayments	37,042	27,772
174	Miscellaneous Current and Accrued Assets		
	TOTAL CURRENT AND ACCRUED ASSETS	**$ 410,297**	**$ 410,511**
	FIXED ASSETS		
101	Utility Plant in Service	$ 21,971,846	$ 22,467,362
103	Property Held for Future Use		
105	Construction Work in Progress	351,197	439,637
108	Accumulated Depreciation - Utility Plant	9,960,835	10,686,406
121	Non-Utility Property		
122	Accumulated Depreciation - Non Utility		
	TOTAL FIXED ASSETS	$ 12,362,208	$ 12,220,594
	TOTAL ASSETS	**$ 12,772,505**	**$ 12,631,104**

NOTE: The Assets on this page should be equal to Total Liabilities and Capital on the following page.

COMPANY NAME
BELLA VISTA WATER CO., INC.

BALANCE SHEET (CONTINUED)

Acct. No.	LIABILITIES	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT LIABILITES		
231	Accounts Payable	$ 32,839	$ 12,702
232	Notes Payable (Current Portion)	98,645	104,163
234	Notes/Accounts Payable to Associated Companies	11,810	(304,624)
235	Customer Deposits	174,510	176,735
236	Accrued Taxes	384,956	464,374
237	Accrued Interest	18,481	14,551
241	Miscellaneous Current and Accrued Liabilities	45,248	191,807
	TOTAL CURRENT LIABILITIES	$ 766,487	$ 659,707
	LONG-TERM DEBT (Over 12 Months)		
224	Long-Term Notes and Bonds	$ 1,987,678	$ 1,982,159
	DEFERRED CREDITS		
251	Unamortized Premium on Debt		
252	Advances in Aid of Construction	6,140,034	6,180,906
255	Accumulated Deferred Investment Tax Credits	15,775	122,872
271	Contributions in Aid of Construction	503,145	503,945
272	Less: Amortization of Contributions	213,015	233,688
281	Accumulated Deferred Income Tax		
	TOTAL DEFERRED CREDITS	$ 6,445,939	$ 6,574,035
	TOTAL LIABILITIES	$ 9,200,104	$ 9,215,902
	CAPITAL ACCOUNTS		
201	Common Stock Issued	$ 1,520,080	$ 1,520,080
211	Paid in Capital in Excess of Par Value	377,948	377,948
215	Retained Earnings	1,674,373	1,517,175
218	Proprietary Capital (Sole Props and Partnerships)		
	TOTAL CAPITAL	$ 3,572,401	$ 3,415,203
	TOTAL LIABILITIES AND CAPITAL	**$ 12,772,505**	**$ 12,631,104**

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

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Director Utilities

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Bella Vista Water Company, Inc.
12725 W. Indian School Rd Suite D 101
Avondale, AZ 85392

ANNUAL REPORT

FOR YEAR ENDING

12	31	2008

FOR COMMISSION USE

ANN 06	07

PROCESSED BY: 4-17-09

SCANNED

COMPANY NAME
BELLA VISTA WATER CO., INC.

BALANCE SHEET

Acct. No.	ASSETS	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT AND ACCRUED ASSETS		
131	Cash	$ 82,476	$ 77,418
134	Working Funds		
135	Temporary Cash Investments		
141	Customer Accounts Receivable	300,263	312,928
146	Notes/Receivables from Associated Companies		
151	Plant Material and Supplies		
162	Prepayments	27,772	28,613
174	Miscellaneous Current and Accrued Assets		
	TOTAL CURRENT AND ACCRUED ASSETS	**$ 410,511**	**$ 418,959**
	FIXED ASSETS		
101	Utility Plant in Service	$ 22,467,362	$ 24,603,532
103	Property Held for Future Use		
105	Construction Work in Progress	439,637	601,131
108	Accumulated Depreciation - Utility Plant	10,686,406	11,237,911
121	Non-Utility Property		
122	Accumulated Depreciation - Non Utility		
	TOTAL FIXED ASSETS	$ 12,220,594	$ 13,966,752
	TOTAL ASSETS	**$ 12,631,104**	**$ 14,385,711**

NOTE: The Assets on this page should be equal to Total Liabilities and Capital on the following page.

COMPANY NAME
BELLA VISTA WATER CO., INC.

BALANCE SHEET (CONTINUED)

Acct. No.	LIABILITIES	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT LIABILITES		
231	Accounts Payable	$ 12,702	$ 30,416
232	Notes Payable (Current Portion)	104,163	111,632
234	Notes/Accounts Payable to Associated Companies	(304,624)	301,032
235	Customer Deposits	176,735	183,579
236	Accrued Taxes	464,374	460,116
237	Accrued Interest	14,551	18,923
241	Miscellaneous Current and Accrued Liabilities	191,807	46,000
	TOTAL CURRENT LIABILITIES	$ 659,707	$ 1,151,699
	LONG-TERM DEBT (Over 12 Months)		
224	Long-Term Notes and Bonds	$ 1,982,159	$ 1,424,266
	DEFERRED CREDITS		
251	Unamortized Premium on Debt		
252	Advances in Aid of Construction	6,180,906	7,199,993
255	Accumulated Deferred Investment Tax Credits	122,872	101,160
271	Contributions in Aid of Construction	503,945	503,945
272	Less: Amortization of Contributions	233,688	254,360
281	Accumulated Deferred Income Tax		
	TOTAL DEFERRED CREDITS	$ 6,574,035	$ 7,550,738
	TOTAL LIABILITIES	$ 9,215,902	$ 10,126,703
	CAPITAL ACCOUNTS		
201	Common Stock Issued	$ 1,520,080	$ 1,520,080
211	Paid in Capital in Excess of Par Value	377,948	377,948
215	Retained Earnings	1,517,175	2,360,981
218	Proprietary Capital (Sole Props and Partnerships)		
	TOTAL CAPITAL	$ 3,415,203	$ 4,259,009
	TOTAL LIABILITIES AND CAPITAL	**$ 12,631,104**	**$ 14,385,711**

EXHIBIT 3

Statement of Financial Accounting Standards No. 109

FAS109 Status Page
FAS109 Summary

Accounting for Income Taxes

February 1992

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

those circumstances, the procedures to allocate the remaining amount to items other than continuing operations are as follows:

a. Determine the effect on income tax expense or benefit for the year of the total net loss for all net loss items
b. Apportion the tax benefit determined in (a) ratably to each net loss item
c. Determine the amount that remains, that is, the difference between (1) the amount to be allocated to all items other than continuing operations and (2) the amount allocated to all net loss items
d. Apportion the tax expense determined in (c) ratably to each net gain item.

Refer to paragraphs 273-276 for additional guidance.

Certain Quasi Reorganizations

39. The tax benefits of deductible temporary differences and carryforwards as of the date of a quasi reorganization as defined and contemplated in ARB No. 43, Chapter 7, "Capital Accounts," ordinarily are reported as a direct addition to contributed capital if the tax benefits are recognized in subsequent years. The only exception is for enterprises that have previously both adopted Statement 96 and effected a quasi reorganization that involves only the elimination of a deficit in retained earnings by a concurrent reduction in contributed capital prior to adopting this Statement. For those enterprises, subsequent recognition of the tax benefit of prior deductible temporary differences and carryforwards is included in income and reported as required by paragraph 37 (without regard to the referenced exceptions) and then reclassified from retained earnings to contributed capital. Those enterprises should disclose (a) the date of the quasi reorganization, (b) the manner of reporting the tax benefits and that it differs from present accounting requirements for other enterprises and (c) the effect of those tax benefits on income from continuing operations, income before extraordinary items, and on net income (and on related per share amounts).

Separate Financial Statements of a Subsidiary

40. The consolidated amount of current and deferred tax expense for a group that files a consolidated tax return shall be allocated among the members of the group when those members issue separate financial statements. This Statement does not require a single allocation method. The method adopted, however, shall be systematic, rational, and consistent with the broad principles established by this Statement. A method that allocates current and deferred taxes to members of the group by applying this Statement to each member as if it were a separate taxpayer [10] meets those criteria. Examples of methods that are not consistent with the broad principles established by this Statement include:

a. A method that allocates only current taxes payable to a member of the group that has taxable temporary differences

b. A method that allocates deferred taxes to a member of the group using a method fundamentally different from the asset and liability method described in this Statement (for example, the Opinion 11 deferred method)
c. A method that allocates no current or deferred tax expense to a member of the group that has taxable income because the consolidated group has no current or deferred tax expense.

Certain disclosures are also required (paragraph 49).

Financial Statement Presentation

41. In a classified statement of financial position, an enterprise shall separate deferred tax liabilities and assets into a current amount and a noncurrent amount. Deferred tax liabilities and assets shall be classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. A deferred tax liability or asset that is not related to an asset or liability for financial reporting (paragraph 15), including deferred tax assets related to carryforwards, shall be classified according to the expected reversal date of the temporary difference pursuant to FASB Statement No. 37, *Balance Sheet Classification of Deferred Income Taxes.* The valuation allowance for a particular tax jurisdiction shall be allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis.

42. For a particular tax-paying component of an enterprise and within a particular tax jurisdiction, (a) all current deferred tax liabilities and assets shall be offset and presented as a single amount and (b) all noncurrent deferred tax liabilities and assets shall be offset and presented as a single amount. However, an enterprise shall not offset deferred tax liabilities and assets attributable to different tax-paying components of the enterprise or to different tax jurisdictions.

Financial Statement Disclosure

43. The components of the net deferred tax liability or asset recognized in an enterprise's statement of financial position shall be disclosed as follows:

a. The total of all deferred tax liabilities measured in procedure (b) of paragraph 17
b. The total of all deferred tax assets measured in procedures (c) and (d) of paragraph 17
c. The total valuation allowance recognized for deferred tax assets determined in procedure (e) of paragraph 17.

The net change during the year in the total valuation allowance also shall be disclosed. A **public enterprise** shall disclose the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before allocation of valuation allowances). A **nonpublic enterprise** shall disclose the types of significant temporary differences and carryforwards but may omit disclosure of the tax effects of each type. A public enterprise that is not subject to income taxes because its income is taxed directly to its owners shall disclose that fact and the net difference between the tax bases and the reported amounts of the enterprise's assets and liabilities.

44. The following information shall be disclosed whenever a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes for any of the areas addressed by Opinion 23 (as amended by this Statement) or for deposits in statutory reserve funds by U.S. steamship enterprises:

a. A description of the types of temporary differences for which a deferred tax liability has not been recognized and the types of events that would cause those temporary differences to become taxable
b. The cumulative amount of each type of temporary difference
c. The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable
d. The amount of the deferred tax liability for temporary differences other than those in (c) above (that is, undistributed domestic earnings, the bad-debt reserve for tax purposes of a U.S. savings and loan association or other qualified thrift lender, the policyholders' surplus of a life insurance enterprise, and the statutory reserve funds of a U.S. steamship enterprise) that is not recognized in accordance with the provisions of paragraphs 31 and 32.

45. The significant components of income tax expense attributable to continuing operations for each year presented shall be disclosed in the financial statements or notes thereto. Those components would include, for example:

a. **Current tax expense or benefit**
b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)
c. Investment tax credits
d. Government grants (to the extent recognized as a reduction of income tax expense)
e. The benefits of operating loss carryforwards
f. Tax expense that results from allocating certain tax benefits either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity
g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise
h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years.

46. The amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35-39) shall be disclosed for each year for which those items are presented.

47. A public enterprise shall disclose a reconciliation using percentages or dollar amounts of (a) the reported amount of income tax expense attributable to continuing operations for the year to (b) the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations. The "statutory" tax rates shall be the regular tax rates if there are alternative tax systems. The estimated amount and the nature of each significant reconciling item shall be disclosed. A nonpublic enterprise shall disclose the nature of significant reconciling items but may omit a numerical reconciliation. If not otherwise evident from the disclosures required by this paragraph and paragraphs 43-46, all enterprises shall disclose the nature and effect of any other significant matters affecting comparability of information for all periods presented.

48. An enterprise shall disclose (a) the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes and (b) any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital (paragraphs 30 and 36).

49. An entity that is a member of a group that files a consolidated tax return shall disclose in its separately issued financial statements:

a. The aggregate amount of current and deferred tax expense for each statement of earnings presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in (a) above are presented.

Effective Date and Transition

50. This Statement shall be effective for fiscal years beginning after December 15, 1992. Earlier application is encouraged. Financial statements for any number of consecutive fiscal years before the effective date may be restated to conform to the provisions of this Statement. Initial application of this Statement shall be as of the beginning of an enterprise's fiscal year (that is, if the Statement is adopted prior to the effective date and during an interim period other than the first interim period, all prior interim periods of that fiscal year shall be restated). Application of the requirements for recognition of a deferred tax liability or asset for a restated interim or annual period shall be based on the facts and circumstances as they existed at that prior date and without the benefit of hindsight.

51. The effect of initially applying this Statement shall be reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle (APB Opinion No. 20, *Accounting Changes,* paragraph 20) except for initially

EXHIBIT 4

Guidelines for Cost Allocations and Affiliate Transactions:

The following Guidelines for Cost Allocations and Affiliate Transactions (Guidelines) are intended to provide guidance to jurisdictional regulatory authorities and regulated utilities and their affiliates in the development of procedures and recording of transactions for services and products between a regulated entity and affiliates. The prevailing premise of these Guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities unless authorized by the jurisdictional regulatory authority. These Guidelines are not intended to be rules or regulations prescribing how cost allocations and affiliate transactions are to be handled. They are intended to provide a framework for regulated entities and regulatory authorities in the development of their own policies and procedures for cost allocations and affiliated transactions. Variation in regulatory environment may justify different cost allocation methods than those embodied in the Guidelines.

The Guidelines acknowledge and reference the use of several different practices and methods. It is intended that there be latitude in the application of these guidelines, subject to regulatory oversight. The implementation and compliance with these cost allocations and affiliate transaction guidelines, by regulated utilities under the authority of jurisdictional regulatory commissions, is subject to Federal and state law. Each state or Federal regulatory commission may have unique situations and circumstances that govern affiliate transactions, cost allocations, and/or service or product pricing standards. For example, The Public Utility Holding Company Act of 1935 requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies.

The Guidelines were developed by the NARUC Staff Subcommittee on Accounts in compliance with the Resolution passed on March 3, 1998 entitled "Resolution Regarding Cost Allocation for the Energy Industry" which directed the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations." In addition, input was requested from other industry parties. Various levels of input were obtained in the development of the Guidelines from the Edison Electric Institute, American Gas Association, Securities and Exchange Commission, the Federal Energy Regulatory Commission, Rural Utilities Service and the National Rural Electric Cooperatives Association as well as staff of various state public utility commissions.

In some instances, non-structural safeguards as contained in these guidelines may not be sufficient to prevent market power problems in strategic markets such as the generation market. Problems arise when a firm has the ability to raise prices above market for a sustained period and/or impede output of a product or service. Such concerns have led some states to develop codes of conduct to govern relationships between the regulated utility and its non-regulated affiliates. Consideration should be given to any "unique" advantages an incumbent utility would have over competitors in an emerging market such as the retail energy market. A code of conduct should be used in conjunction with guidelines on cost allocations and affiliate transactions.

A. DEFINITIONS

1. Affiliates - companies that are related to each other due to common ownership or control.

2. Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.

3. Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.

4. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).

5. Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.

6. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

7. Direct Costs - costs which can be specifically identified with a particular service or product.

8. Fully Allocated costs - the sum of the direct costs plus an appropriate share of indirect costs.

9. Incremental pricing - pricing services or products on a basis of only the additional costs added by their operations while one or more pre-existing services or products support the fixed costs.

10. Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.

11. Non-regulated - that which is not subject to regulation by regulatory authorities.

12. Prevailing Market Pricing - a generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.

13. Regulated - that which is subject to regulation by regulatory authorities.

14. Subsidization - the recovery of costs from one class of customers or business unit that are attributable to another.

B. COST ALLOCATION PRINCIPLES

The following allocation principles should be used whenever products or services are provided between a regulated utility and its non-regulated affiliate or division.

1. To the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.

2. The general method for charging indirect costs should be on a fully allocated cost basis. Under appropriate circumstances, regulatory authorities may consider incremental cost, prevailing market pricing or other methods for allocating costs and pricing transactions among affiliates.

3. To the extent possible, all direct and allocated costs between regulated and non-regulated services and products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts. Documentation should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates.

4. The allocation methods should apply to the regulated entity's affiliates in order to prevent

subsidization from, and ensure equitable cost sharing among the regulated entity and its affiliates, and vice versa.

5. All costs should be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.

6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products.

7. The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators.

C. COST ALLOCATION MANUAL (NOT TARIFFED)

Each entity that provides both regulated and non-regulated services or products should maintain a cost allocation manual (CAM) or its equivalent and notify the jurisdictional regulatory authorities of the CAM's existence. The determination of what, if any, information should be held confidential should be based on the statutes and rules of the regulatory agency that requires the information. Any entity required to provide notification of a CAM(s) should make arrangements as necessary and appropriate to ensure competitively sensitive information derived therefrom be kept confidential by the regulator. At a minimum, the CAM should contain the following:

1. An organization chart of the holding company, depicting all affiliates, and regulated entities.

2. A description of all assets, services and products provided to and from the regulated entity and each of its affiliates.

3. A description of all assets, services and products provided by the regulated entity to non-affiliates.

4. A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

D. AFFILIATE TRANSACTIONS (NOT TARIFFED)

The affiliate transactions pricing guidelines are based on two assumptions. First, affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices. Second, utilities have a natural business incentive to shift costs from non-regulated competitive operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Too much flexibility will lead to subsidization. However, if the affiliate transaction pricing guidelines are too rigid, economic transactions may be discouraged.

The objective of the affiliate transactions' guidelines is to lessen the possibility of subsidization in order to protect monopoly ratepayers and to help establish and preserve competition in the electric generation and the electric and gas supply markets. It provides ample flexibility to accommodate exceptions where the outcome is in the best interest of the utility, its ratepayers and competition. As with any transactions, the burden of proof for any exception from the general rule rests with the proponent of the exception.

1. Generally, the price for services, products and the use of assets provided by a regulated entity to its non-regulated affiliates should be at the higher of fully allocated costs or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

2. Generally, the price for services, products and the use of assets provided by a non-regulated affiliate to a regulated affiliate should be at the lower of fully allocated cost or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

3. Generally, transfer of a capital asset from the utility to its non-regulated affiliate should be at the greater of prevailing market price or net book value, except as otherwise required by law or regulation. Generally, transfer of assets from an affiliate to the utility should be at the lower of prevailing market price or net book value, except as otherwise required by law or regulation. To determine prevailing market value, an appraisal should be required at certain value thresholds as determined by regulators.

4. Entities should maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation.

E. AUDIT REQUIREMENTS

1. An audit trail should exist with respect to all transactions between the regulated entity and its affiliates that relate to regulated services and products. The regulator should have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with the guidelines. Regulators should have complete access to affiliate records, consistent with state statutes, to ensure that the regulator has access to all relevant information necessary to evaluate whether subsidization exists. The auditors, not the audited utilities, should determine what information is relevant for a particular audit objective. Limitations on access would compromise the audit process and impair audit independence.

2. Each regulated entity's cost allocation documentation should be made available to the company's internal auditors for periodic review of the allocation policy and process and to any jurisdictional regulatory authority when appropriate and upon request.

3. Any jurisdictional regulatory authority may request an independent attestation engagement of the CAM. The cost of any independent attestation engagement associated with the CAM, should be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.

4. Any audit of the CAM should not otherwise limit or restrict the authority of state regulatory authorities to have access to the books and records of and audit the operations of jurisdictional utilities.

5. Any entity required to provide access to its books and records should make arrangements as necessary and appropriate to ensure that competitively sensitive information derived therefrom be kept confidential by the regulator.

F. REPORTING REQUIREMENTS

1. The regulated entity should report annually the dollar amount of non-tariffed transactions

associated with the provision of each service or product and the use or sale of each asset for the following:

a. Those provided to each non-regulated affiliate.

b. Those received from each non-regulated affiliate.

c. Those provided to non-affiliated entities.

2. Any additional information needed to assure compliance with these Guidelines, such as cost of service data necessary to evaluate subsidization issues, should be provided.

BELLA VISTA WATER COMPANY, INC.

DOCKET NO. W-02465A-09-0411 ET AL.

DIRECT TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 12, 2010

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INTRODUCTION

Q. Please state your name, position, employer and address.

A. My name is Rodney L. Moore. I am a Public Utilities Analyst V with the Residential Utility Consumer Office ("RUCO"), located at 1110 West Washington Street, Suite 220, Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Appendix 1, which is attached to this testimony, describes my educational background and includes a list of the rate case and regulatory matters in which I have participated.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's revenue requirement recommendations regarding Bella Vista Water Company's ("BVWC" or "Company") application for an increase in its water rates. The test year utilized by the Company in connection with the preparation of this application is the 12-month period that ended March 31, 2009 ("Test Year").

BACKGROUND

Q. Please describe your work effort on this project.

A. I obtained and reviewed data and performed analytical procedures necessary to understand the Company's filing as it relates to the rate base, operating income and revenue requirements. My recommendations are based on these analyses. Procedures performed include the in-house formulation and analysis of three sets of data requests, and the review and analysis of Company responses to Commission Staff data requests.

Q. Does RUCO support the Company's request to consolidate operations and the transfer of utility assets of Bella Vista Water Company, Inc., Northern Sunrise Water Company, Inc ("NSWC"). and Southern Sunrise Water Company, Inc. ("SSWC") into Bella Vista Water Company, Inc.?

A. RUCO will address its position on rate consolidation in its testimony that is due April 23, 2010.

Q. Are you providing testimony for each of the three Liberty Water systems (BVWC, NSWC and SSWC) on a stand-alone basis?

A. No. In this round of testimony, I am providing testimony on a consolidated basis. As explained in the direct testimony of RUCO Director Jodi Jerich, RUCO will present schedules on a stand-alone basis when RUCO's direct testimony on rate design is filed on April 23, 2010. At that time, I will provide my recommendations on a stand-alone basis.

Q. What areas will you address in your testimony?

A. I will address issues, on a consolidated basis, related to revenue requirement, rate base, operating income and rate design. RUCO's witness Timothy J. Coley will provide an analysis of the rate base adjustment associated with the accumulated deferred income taxes as presented on Schedule RLM-5 and the operating income adjustment associated with the central office cost allocation expenses as presented on Schedule RLM-11. RUCO's witness William A. Rigsby will provide an analysis of the cost of capital as presented on Schedule RLM-14. On April 23, 2010, Mr. Rigsby will provide a cost of capital analysis for each system in support of stand-alone rates.

Q. Please identify the exhibits you are sponsoring.

A. I am sponsoring a separate set of Schedules numbered RLM-1 through RLM-14. My rate design testimony and Schedules numbered RLM-RD1 and RLM-RD2 will be filed on April 23, 2010.

SUMMARY OF ADJUSTMENTS

Q. Please summarize the adjustments to rate base, operating income and revenue requirement addressed in your testimony.

A. My testimony addresses the following issues:

Rate Base

Post Test Year Gross Plant-In-Service and Accumulated Depreciation – This adjustment reflects changes in recorded plant costs from budget to the actual amounts.

Customer Deposits – This adjustment reflects updated information to decrease meter deposits.

Accumulated Deferred Income Taxes – RUCO witness Timothy Coley will sponsor this adjustment.

Operating Income

Test Year Depreciation Expense – This adjustment corrects a Company calculation error by including all depreciation expenses in the summation.

Property Tax Expense - This adjustment reflects property tax expense based on RUCO's calculation of adjusted and proposed operating revenues.

Miscellaneous Operating Expenses – These adjustments remove unnecessary operating expenses not required for the provisioning of water service and/or remove test year expenses deemed atypical and non-recurring.

Central Office Cost Allocations - RUCO witness Timothy Coley will sponsor this adjustment.

Rate Case Expense - This adjustment is based on RUCO's determination of the fair and reasonable cost to Bella Vista ratepayers for this application process.

Income Tax Expense – This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

Rate Design and Proof of Recommended Revenue

On April 23, 2010, I will be filing separate direct testimony on my recommended rate design that is generally consistent with the Company's proposed consolidated rate design, but reflects RUCO's recommended revenue requirement and provides proof that the design will produce the appropriate revenue requirement.

REVENUE REQUIREMENTS

Q. Please summarize the results of RUCO's analysis of the Company's filing and state RUCO's recommended revenue requirement.

A. As outlined in Schedule RLM-1, RUCO is recommending that the Company's revenue requirement not exceed the following levels:

BVWC	RUCO	DIFFERENCE
$5,672,485	$4,919,615	($752,870)

RUCO's recommended increase in Fair Value Rate Base ("FVRB") is based on the Company's Original Cost Rate Base ("OCRB") and is summarized on Schedule RLM-1:

BVWC	RUCO	DIFFERENCE
$8,628,612	$7,286,645	($1,341,967)

RUCO's recommended required operating income is shown on Schedule RLM-1 as:

BVWC	RUCO	DIFFERENCE
$965,542	$613,796	($351,746)

RUCO's recommended revenue requirement percentage increase versus the Company's proposal is as follows:

BVWC	RUCO	DIFFERENCE
36.29 %	18.20 %	-18.09 %

Schedule RLM-1 presents the calculation of RUCO's recommended revenue requirement.

RATE BASE

Rate Base Adjustment Summary

Q. Is RUCO recommending any changes to the Company's proposed rate base?

A. Yes. My adjustments to rate base are exhibited on Schedule RLM-3, columns A through G. Based on my analysis I made two adjustments to the rate base as filed by the Company.

Q. Does RUCO accept BVWC's request to use the Company's OCRB as the FVRB?

A. Yes. RUCO accepts the Company's request that the OCRB be used as the fair value rate base ("FVRB").

Q. Please describe your rate base adjustments.

A. My review, analysis and adjustments are explained below.

Rate Base Adjustment No. 1 – Post Test Year Gross Plant-In-Service and Accumulated Depreciation

Q. Please explain the basis for your adjustment to the post test year gross plant-in-service and the accumulated depreciation.

A. My plant-in-service analysis from the prior rate case to the end of the Test Year mirrored the Company's filing; however, the Company acknowledged in its response to Staff data request MSJ 5-2 there were updated costs for the plant additions and retirements to reflect actual costs incurred. RUCO reviewed BVWC's response and made the appropriate adjustments.

Q. Please explain the total effect of your Adjustment No. 1 on the rate base.

A. As shown on Schedule RLM-3, column (B), and with supporting Schedule RLM-5, these adjustments decrease gross utility plant in service by $1,940 and accumulated depreciation by $3,610 for a net reduction in the adjusted test year rate base of $5,550.

Rate Base Adjustment No. 2 – Customer Deposits

Q. Please explain the basis for your adjustment to the customer deposits.

A. The Company acknowledged in its response to RUCO data request 2.1 that the actual amount of the customer deposits was less than the amount recorded in the application. RUCO reviewed BVWC's response and made the appropriate adjustments to reflect actual customer deposits.

As shown on Schedule RLM-3, column (C), this adjustment increased adjusted test year rate base by $121,861.

Rate Base Adjustment No. 3 – Accumulated Deferred Income Taxes

Q. Please explain how this adjustment to accumulated deferred income taxes was analyzed by RUCO.

A. This adjustment is sponsored by RUCO witness Timothy Coley, please refer to his testimony for clarification.

Based on Mr. Coley's testimony and as shown on Schedule RLM-3, column (D), and with supporting Schedule RLM-4 this adjustment decreased adjusted test year rate base by $1,458,278.

OPERATING INCOME

Operating Income Adjustment Summary

Q. Is RUCO recommending any changes to the Company's proposed operating expenses?

A. Yes. Based on my analysis of the Company's adjustments to its historical test year operating income, I have made six adjustments to the Company-proposed level of operating income. The adjustments are exhibited on Schedule RLM-7, columns A through H.

Operating Income Adjustment No. 1 – Test Year Depreciation Expense

Q. Please explain your adjustment to the test year depreciation expense.

A. This adjustment reflects a Company acknowledged computation error, which failed to include all depreciation expenses in BVWC's total.

As shown on Schedule RLM-7, column (B), with supporting documentation on Schedule RLM-8, this adjustment increased the adjusted test year operating expenses by $32,214.

Operating Income Adjustment No. 2 – Property Tax Computation

Q. Did RUCO use the same methodology used by BVWC to calculate property tax expenses?

A. Yes. RUCO calculated property tax expense using two times the adjusted revenues for the year ending March 31, 2009, and one year of revenues at proposed rates. The assessed value (21 percent of full cash value) was then multiplied by the property tax rate to determine adjusted property tax expense. The difference between the Company and RUCO's property tax expense is a result of RUCO's lower level of adjusted and proposed operating revenues.

As shown on Schedule RLM-7, column (C), with supporting documentation on Schedule RLM-9 this adjustment decreased the adjusted test year operating expenses by $9,408.

Operating Income Adjustment No. 3 – Miscellaneous Expense

Q. Please explain your adjustment to the test year miscellaneous expenses.

A After an analysis of the Company's response to Staff data request CSB 1-32, I determined there were test year expenditures not required for the provision of water service or were abnormal and atypical for considerations as a reasonable recurring test year expense. Therefore, I disallowed their inclusion as acceptable test year operating expenses.

My adjustment removed unnecessary expenditures for charitable donations and a Company Christmas party.

As shown on Schedule RLM-7, column (E), with supporting documentation on Schedule RLM-10, this adjustment decreased test year expenses by $2,500.

Operating Income Adjustment No. 4 – Central Office Cost Allocations

Q. Please explain how this adjustment to the allocation of central office costs was analyzed by RUCO.

A. This adjustment is sponsored by RUCO witness Timothy Coley, please refer to his testimony for clarification.

Based on Mr. Coley's testimony and as shown on Schedule RLM-7, column (F), this adjustment decreased adjusted test year rate base by $144,927.

Operating Income Adjustment No. 5 – Rate Case Expense

Q. Please explain the adjustment to the rate case expense.

A. RUCO made a determination of the expense to ratepayers for costs incurred by the Company for filing this rate case application.

Q. What level of rate case expense had Bella Vista requested?

A. Bella Vista is requesting $400,000 in rate case expense normalized over three years for a test year expense of $133,333.

Q. Please explain the basis for determining the appropriate level of rate case expense.

A. My adjustment consists of two elements. First, I analyzed the actual rate case expenses incurred to the date of this filing. As of the end of February 2010, the Company has incurred $59,206.

Second, I analyzed a Company-provided estimate of similar remaining costs to be expended for the duration of the Black Mountain Sewer Company ("BMSC") proceeding. In the BMSC preceding the Company estimated $130,000. Because this matter will be heard in Tucson, I have added an additional $10,000 as a per diem allowance to reflect costs associated with conducting the Hearing out of town.

Q. Based on this analysis, what level of rate case expense are you recommending as the financial burden on the ratepayers?

A. As shown on Schedule RLM-7, column (F) and supporting Schedule RLM-12, I recommended total rate case expenses of $200,000 normalized over three years. This adjustment decreased the adjusted test year expenses by $66,667.

Operating Income Adjustment No. 6 – Income Taxes

Q. Please explain RUCO's adjustment to BVWC's income tax expenses.

A. This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

Q. Does RUCO's recommended level of income tax expense reflect an interest deduction using a synchronized interest calculation?

A. Yes.

As shown on Schedules RLM-7, column (K) and supporting Schedule RLM-13, this adjustment increased the adjusted test year expenses by $80,763.

COST OF CAPITAL

Q. Has RUCO conducted a cost of capital analysis for BVWC?

A. Yes. RUCO witness William A. Rigsby has filed testimony on the cost of capital issues associated with the case. His recommended capital structure and weighted average cost of capital is exhibited on Schedule RLM-14.

Q. Does this conclude your direct testimony?

A. Yes, it does.

APPENDIX 1

Qualifications of Rodney Lane Moore

EDUCATION: Athabasca University
Bachelor's Degree in Business Administration - 1993

EXPERIENCE: Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona 85007
May 2001 - Present

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

Auditor
Arizona Corporation Commission
Phoenix, Arizona 85007
October 1999 - May 2001

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

Utility Company	Docket No.
Rio Verde Utilities, Inc	WS-02156A-00-0321
Black Mountain Gas Company	G-03703A-01-0283
Green Valley Water Company	W-02025A-01-0559
New River Utility Company	W-01737A-01-0662

Utility Company	Docket No.
Dragoon Water Company	W-01917A-01-0851
Roosevelt Lake Resort, Inc.	W-01958A-02-0283
Southwest Gas Company	G-01551A-02-0425
Arizona-American Water Company	W-01303A-02-0867 et al.
Rio Rico Utilities, Inc.	WS-02676A-03-0434
Qwest Corporation	T-01051B-03-0454
Chaparral City Water Company	W-02113A-04-0616
Southwest Gas Company	G-01551A-04-0876
Arizona-American Water Company	W-01303A-05-0405
Far West Water and Sewer Company	WS-03478A-05-0801
Gold Canyon Sewer Company	SW-02519A-06-0015
Arizona-American Water Company	WS-01303A-06-0403
UNS Gas, Inc.	G-04204A-06-0463 et al.
UNS Electric, Inc.	E-04204A-06-0783
Tucson Electric Power Company	E-01933A-07-0402
Southwest Gas Company	G-01551A-07-0504
Arizona Water Company	W-01445A-08-0440
Arizona-American Water Company	W-01303A-08-0227 et al.
Johnson Utilities, LLC	WS-02987A-08-0180
Black Mountain Sewer Corporation	SW-02361A-08-0609
Arizona-American Water Company	W-01303A-09-0343 et al.
Global Water Company	SW-20445A-09-0077 et al.

Bella Vista Water Company
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Test Year Ended March 31, 2009

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RLM-2	1	RATE BASE
RLM-3	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
RLM-4	1	RATE BASE ADJUSTMENT NO. 1 - POST TEST YEAR PLANT AND ACCUMULATED DEPRECIATION
TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - CUSTOMER DEPOSITS
RLM-5	1	RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEFERRED INCOME TAXES
RLM-6	1	OPERATING INCOME
RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - TEST YEAR DEPRECIATION EXPENSE
RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX COMPUTATION
RLM-10	1	OPERATING INCOME ADJUSTMENT NO. 3 - MISCELLANEOUS EXPENSES
RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 4 - CENTRAL OFFICE COST ALLOCATION
RLM-12	1	OPERATING INCOME ADJUSTMENT NO. 5 - RATE CASE EXPENSES
RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 6 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

Bella Vista Water Company
Docket No. W-02453A-09-0414 et al.
Test Year Ended March 31, 2009

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Fair Value Rate Base	$ 8,628,612	$ 7,286,645
2	Adjusted Operating Income (Loss)	$ 38,170	$ 148,696
3	Current Rate Of Return (L2 / L1)	0.44%	2.04%
4	Required Operating Income (L5 X L1)	$ 965,542	$ 613,796
5	Required Rate Of Return On Fair Value Rate Base	11.19%	8.42%
6	Operating Income Deficiency (L4 - L2)	$ 927,371	$ 465,101
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	1.6286	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	$ 1,510,349	$ 757,479
9	Adjusted Test Year Revenue	$ 4,162,136	$ 4,162,136
10	Proposed Annual Revenue (L8 + L9)	$ 5,672,485	$ 4,919,615
11	Required Percentage Increase In Revenue (L8 / L9)	36.29%	18.20%
12	Rate Of Return On Common Equity	12.50%	9.00%

References:
Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-2, RLM-6, And RLM-14

REVENUE REQUIREMENT - CONT'D
GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	(0.3860)			
3	Subtotal (L1 + L2)	0.6140			
4	**Revenue Conversion Factor** (L1 / L3)	1.6286			
	CALCULATION OF EFFECTIVE TAX RATE:				
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Col. (B), L4)	$ 613,796			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Col. (B), L2)	148,696			
13	Required Increase In Operating Income (L11 - L12)		$ 465,101		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	$ 325,355			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	32,976			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		$ 292,378		
17	Total Required Increase In Revenue (L13 + L16)		$ 757,479		
				RUCO Recommended	
	CALCULATION OF INCOME TAX:				
18	Revenue (Sch. RLM-1, Col. (B), L10)			$ 4,919,615	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L28 - L27)			(3,980,464)	
20	Synchronized Interest (Col. (C), L37)			(96,239)	
21	Arizona Taxable Income (L18 + L19 + L20)			$ 842,912	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				$ 58,734
24	Fed. Taxable Income (L21 - L23)			$ 784,178	
25	Fed. Tax On 1st Inc. Bracket ($1 - $50,000) @ 15%			$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket ($50,001 - $75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket ($75,001 - $100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket ($100,001 - $335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket ($335,001 - $10M) @ 34%			152,720	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				$ 266,620
31	Combined Federal And State Income Tax (L23 + L30)				$ 325,355
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L24)				$ 32,976
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L24)				$ 292,378
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
	CALCULATION OF INTEREST SYNCHRONIZATION:				
35	Rate Base (Sch. RLM-2, Col. (H), L15)			$ 7,286,645	
36	Weighted Avg. Cost Of Debt (Sch. RLM-14, Col. (F), L1)			1.32%	
37	Synchronized Interest (L35 X L36)			$ 96,239	

Bella Vista Water Company
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SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	$ 28,165,701	$ (1,940)	$ 28,163,761
2	Accumulated Depreciation	(12,057,912)	(3,610)	(12,061,522)
3	Net Utility Plant In Service (L1 + L2)	$ 16,107,789	$ (5,550)	$ 16,102,239
4	Advances In Aid Of Const.	$ (6,781,443)	$ -	$ (6,781,443)
5	Contribution In Aid Of Const.	$ (542,445)	$ -	$ (542,445)
6	Accumulated Amortization Of CIAC	230,987	-	230,987
7	NET CIAC (L5 + L6)	$ (311,458)	$ -	$ (311,458)
8	Customer Meter Deposits	$ (559,605)	$ 134,361	$ (425,244)
9	Customer Hydrant Meter Deposits	$ -	$ (12,500)	$ (12,500)
10	Deferred Income Taxes & Credits	$ 173,329	$ (1,458,278)	$ (1,284,949)
11	Unamortized Finance Charges	$ -	$ -	$ -
12	Deferred Regulatory Assets	$ -	$ -	$ -
13	Allowance For Working Capital	$ -	$ -	$ -
14	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	$ 8,628,612	$ (1,341,967)	$ 7,286,645

References:
Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
Column (B): RLM-3, Columns (B) Thru (G)
Column (C): Column (A) + Column (B)

Bella Vista Water Company
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SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) ADJ # 1 POST TY PLT & ACC DEP	(C) ADJ # 2 CUSTOMER DEPOSITS	(D) ADJ # 3 DEFERRED INCOME TAX	(E) INTENT'NLY LEFT BLANK	(F) INTENT'NLY LEFT BLANK	(G) INTENT'NLY LEFT BLANK	(H) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	$ 28,165,701	$ (1,940)	$ -	$ -	$ -	$ -	$ -	$ 28,163,761
2	Accumulated Depreciation	(12,057,912)	(3,610)	-	-	-	-	-	(12,061,522)
3	Net Utility Plant In Service (L1 + L2)	$ 16,107,789	$ (5,550)	$ -	$ -	$ -	$ -	$ -	$ 16,102,239
4	Advances In Aid Of Const.	$ (6,781,443)	$ -	$ -	$ -	$ -	$ -	$ -	$ (6,781,443)
5	Contribution In Aid Of Const.	$ (542,445)	$ -	$ -	$ -	$ -	$ -	$ -	$ (542,445)
6	Accumulated Amortization Of CIAC	230,987	-	-	-	-	-	-	230,987
7	NET CIAC (L5 + L6)	$ (311,458)	$ -	$ -	$ -	$ -	$ -	$ -	$ (311,458)
8	Customer Meter Deposits	$ (559,605)	$ -	$ 134,361	$ -	$ -	$ -	$ -	$ (425,244)
9	Customer Hydrant Meter Deposits	$ -	$ -	$ (12,500)	$ -	$ -	$ -	$ -	$ (12,500)
10	Deferred Income Taxes & Credits	$ 173,329	$ -	$ -	$ (1,458,278)	$ -	$ -	$ -	$ (1,284,949)
11	Unamortized Finance Charges	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
12	Deferred Regulatory Assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
13	Allowance For Working Capital	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
14	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	$ 8,628,612	$ (5,550)	$ 121,861	$ (1,458,278)	$ -	$ -	$ -	$ 7,286,645

References:
Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
Column (B): Adjustment No. 1 - RUCO Adjustment To Post Test-Year GPIS And Acc. Dep. (See Testimony and Schedule RLM-4)
Column (C): Adjustment No. 2 - RUCO Adjustment To Customer Deposits (See Testimony)
Column (D): Adjustment No. 3 - RUCO Adjustment To Deferred Income Taxes (See Testimony Of RUCO Witness Tim Coley and Schedule RLM-5)
Column (E): Intentionally Left Blank
Column (F): Intentionally Left Blank
Column (G): Intentionally Left Blank
Column (H): Sum Of Columns (A), (B), (C), (D), (E) & (F)

Bella Vista Water Company
Docket No. W-02453A-09-0414 et al.
Test Year Ended March 31, 2009

POST TEST YEAR PLANT SCHEDULE
YEAR ENDED JUNE 30, 2008

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) RUCO T/Y PLANT AS ADJUSTED	(B) RUCO POST TY ADJM'TS PLANT ADDITIONS	(C) RUCO POST TY ADJM'TS PLANT RETIRMENTS	(D) TOTAL PLANT VALUE	(E) ACC. DEP.	(F) NET PLANT VALUE
1	301	Organization Cost	$ -	$ -	$ -	$ -	$ -	$ -
2	302	Franchise Cost	961	-	-	961	-	961
3	303	Land and Land Rights	688,011	-	-	688,011	-	688,011
4	304	Structures and Improvements	1,929,428	-	-	1,929,428	(401,914)	1,527,514
5	305	Collecting and Impounding Res.	51,378	-	-	51,378	(2,059)	49,319
6	306	Lake River and Other Intakes	-	-	-	-	-	-
7	307	Wells and Springs	1,300,212	-	-	1,300,212	(532,200)	768,011
8	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-
9	309	Supply Mains	3,798	-	-	3,798	(104)	3,694
10	310	Power Generation Equipment	1,293	-	-	1,293	(75)	1,218
11	311	Electric Pumping Equipment	2,777,250	-	-	2,777,250	(2,527,613)	249,638
12	320	Water Treatment Equipment	109,639	-	-	109,639	(50,073)	59,566
13	320.1	Water Treatment Equipment	-	-	-	-	-	-
14	320.2	Chemical Solution Feeders	-	-	-	-	-	-
15	330	Dist. Reservoirs & Standpipe	2,709,163	-	-	2,709,163	(822,901)	1,886,263
16	330.1	Storage tanks	-	-	-	-	-	-
17	330.2	Pressure Tanks	-	-	-	-	-	-
18	331	Trans. and Dist. Mains	12,722,170	104,507	(8,390)	12,818,287	(4,104,951)	8,713,336
19	333	Services	1,500,252	-	-	1,500,252	(837,916)	662,336
20	334	Meters	1,517,711	-	-	1,517,711	(1,492,936)	24,774
21	335	Hydrants	970,159	-	-	970,159	(284,597)	685,562
22	336	Backflow Prevention Devices	-	-	-	-	-	-
23	339	Other Plant and Misc. Equip.	114,540	-	-	114,540	(8,753)	105,786
24	340	Office Furniture and Fixtures	202,929	-	-	202,929	(170,545)	32,385
25	340.1	Computers and Software	161,264	-	-	161,264	(117,801)	43,463
26	341	Transportation Equipment	295,224	-	-	295,224	(291,918)	3,305
27	342	Stores Equipment	-	-	-	-	-	-
28	343	Tools and Work Equipment	124,953	-	-	124,953	(124,689)	264
29	344	Laboratory Equipment	-	-	-	-	-	-
30	345	Power Operated Equipment	31,548	-	-	31,548	(5,882)	25,666
31	346	Communications Equipment	444,928	-	-	444,928	(127,515)	317,413
32	347	Miscellaneous Equipment	110,348	-	-	110,348	(104,580)	5,768
33	348	Other Tangible Plant	300,001	-	-	300,001	(52,500)	247,501
34		Rounding 0	484			484	-	484
35	TOTAL WASTEWATER PLANT		$ 28,067,644	$ 104,507	$ (8,390)	$ 28,163,761	$ (12,061,522)	$ 16,102,239
36	Company As Filed					28,165,701	$ (12,057,912)	
37	Difference					(1,940)	$ (3,610)	
38	RUCO Adjustment (Line 37) (See RLM-3, Column (B))					(1,940)	$ (3,610)	

References:
Column (A): RUCO Workpapers RLM-4-A(1)
Columns (B) (C): Testimony, RLM
Column (D): Sum Of Columns (A), (B), & (C)
Column (E): Sum Of WP RLM-4-A(1), Column (B) And RLM-4, Column (C)
Column (F): Column (D) + Column (E)

Bella Vista Water Company
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ACCUMULATED DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	(A) REFERENCE		(B) AMOUNT
	Deferred Income Taxes:			
1	Algonquin Accumulated Deferred Income Tax Assets	2008 Algonquin Annual Report	$	23,032,000
2	Algonquin Accumulated Deferred Income Tax Liabilities	2008 Algonquin Annual Report		(106,983,000)
3	Net Accumulated Deferred Income Tax Assets (Liabilities)	Line 1 + Line 2	$	(83,951,000)
4	Bella Vista Allocation	Note (A)		1.5438%
5	Bella Vista ADIT Liabilities Allocation	Line 3 X Line 4	$	(1,296,004)
6	Convert to US Dollars	Note (B)		0.9915
7	Bella Vista Allocated ADIT Liabilites Balance	Line 5 X Line 6	$	(1,284,949)
8	Test Year Deferred Income Taxes & Credits As Filed	Company Schedule C-1		173,329
9	Decrease In Deferred Income Taxes & Credits	Line 7 - Line 8	$	(1,458,278)
10	RUCO Adjustment (See RLM-3, Column (D), Line 11)	Line 9	$	(1,458,278)

NOTES:

11	(A)	Purchase Price of BVWC, NSWC and SSWC	Annual Report	$	15,100,000
12		Algonquin Total Assets	Annual Report	$	978,130,000
13		Ratio Of BVWC, NSWC & SSWC To Algonquin Total A	Line 11 / Line 12		1.5438%
14	(B)	Currency Conversion	moneycentral.com on 04/1/2010		0.9915

SUPPORTING SCHEDULES
2008 Algonquin Power Income Fund Annual Report

Bella Vista Water Company
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OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJM'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Flat Rate Revenues	$ 4,023,022	$ -	$ 4,023,022	$ 757,479	$ 4,780,501
2	Misc. Service Revenues	-	-	-	-	-
3	Other WW Revenues	139,114	-	139,114	-	139,114
4	TOTAL OPERATING REVENUE	$ 4,162,136	$ -	$ 4,162,136	$ 757,479	$ 4,919,615
	Operating Expenses:					
5	Salaries and Wages	$ -	$ -	$ -	$ -	$ -
6	Purchased Water	708	-	708	-	708
7	Purchased Power	609,481	-	609,481	-	609,481
8	Fuel for Power Production	-	-	-	-	-
9	Chemicals	5,709	-	5,709	-	5,709
10	Materials & Supplies	49,998	-	49,998	-	49,998
11	Outside Services	4,696	-	4,696	-	4,696
12	Outside Services- Legal	41,937	-	41,937	-	41,937
13	Outside Services- Other	1,599,375	(144,927)	1,454,447	-	1,454,447
14	Water Testing	28,184	-	28,184	-	28,184
15	Equipment Rental	6,205	-	6,205	-	6,205
16	Rents	60,600	-	60,600	-	60,600
17	Transportation Expenses	125,122	-	125,122	-	125,122
18	Insurance - General Liability	59,410	-	59,410	-	59,410
19	Insurance - Health and Life	7,290	-	7,290	-	7,290
20	Reg. Comm. Exp.	10,628	-	10,628	-	10,628
21	Reg. Comm. Exp. - Rate Case	133,333	(66,667)	66,667	-	66,667
22	Miscellaneous Expense	92,502	(2,500)	90,002	-	90,002
23	Bad Debt Expense	18,178	-	18,178	-	18,178
24	Depreciation Expense	1,122,442	32,214	1,154,656	-	1,154,656
25	Taxes Other Than Income	-	-	-	-	-
26	Property Taxes	195,954	(9,408)	186,546	-	186,546
27	Income Tax	(47,787)	80,763	32,976	292,378	325,355
28	TOTAL OPERATING EXPENSES	$ 4,123,965	$ (110,525)	$ 4,013,440	$ 292,378	$ 4,305,818
29	OPERATING INCOME (LOSS)	$ 38,170		$ 148,696		$ 613,796

References:
Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): Revenue From RLM-1, Column (B), Line 8 And Income Tax From RLM-1, Column (B), Line 8 - Line 6
Column (E): Column (C) + Column (D)

Bella Vista Water Company
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SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ # 1 DEP. EXPENSE	(C) ADJ # 2 PROPERTY TAX	(D) ADJ # 3 MISC. EXPENSES	(E) ADJ # 4 CENTRAL OFFICE COST	(F) ADJ # 5 RATE CASE EXPENSES	(G) LEFT BLANK	(H) ADJ # 6 INCOME TAX	(I) RUCO AS ADJT'D
	Revenues:									
1	Flat Rate Revenues	$ 4,023,022	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,023,022
2	Misc. Service Revenues	-	-	-	-	-	-	-	-	-
3	Other WW Revenues	139,114	-	-	-	-	-	-	-	139,114
4	TOTAL OPR'G REV.	$ 4,162,136	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,162,136
	Operating Expenses:									
5	Salaries and Wages	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	Purchased Water	708	-	-	-	-	-	-	-	708
7	Purchased Power	609,481	-	-	-	-	-	-	-	609,481
8	Fuel for Power Production	-	-	-	-	-	-	-	-	-
9	Chemicals	5,709	-	-	-	-	-	-	-	5,709
10	Materials & Supplies	49,998	-	-	-	-	-	-	-	49,998
11	Outside Services	4,696	-	-	-	-	-	-	-	4,696
12	Outside Services- Legal	41,937	-	-	-	-	-	-	-	41,937
13	Outside Services- Other	1,599,375	-	-	-	(144,927)	-	-	-	1,454,447
14	Water Testing	28,184	-	-	-	-	-	-	-	28,184
15	Equipment Rental	6,205	-	-	-	-	-	-	-	6,205
16	Rents	60,600	-	-	-	-	-	-	-	60,600
17	Transportation Expenses	125,122	-	-	-	-	-	-	-	125,122
18	Insurance - General Liability	59,410	-	-	-	-	-	-	-	59,410
19	Insurance - Health and Life	7,290	-	-	-	-	-	-	-	7,290
20	Reg. Comm. Exp.	10,628	-	-	-	-	-	-	-	10,628
21	Reg. Comm. Exp. - Rate Case	133,333	-	-	-	-	(66,667)	-	-	66,667
22	Miscellaneous Expense	92,502	-	-	(2,500)	-	-	-	-	90,002
23	Bad Debt Expense	18,178	-	-	-	-	-	-	-	18,178
24	Depreciation Expense	1,122,442	32,214	-	-	-	-	-	-	1,154,656
25	Taxes Other Than Income	-	-	-	-	-	-	-	-	-
26	Property Taxes	195,954	-	(9,408)	-	-	-	-	-	186,546
27	Income Tax	(47,787)	-	-	-	-	-	-	80,763	32,976
29	TOTAL OPR'G EXP.	$ 4,123,965	$ 32,214	$ (9,408)	$ (2,500)	$ (144,927)	$ (66,667)	$ -	$ 80,763	$ 4,013,440
30	OPR'G INC. (LOSS)	$ 38,170								$ 148,696

References:
Column (A): Company Schedule C-1
Column (B): Testimony, RLM And Schedule RLM-8
Column (C): Testimony, RLM And Schedule RLM-9
Column (D): Testimony, RLM And Schedule RLM-10
Column (E): Testimony, TLC And Schedule RLM-11
Column (F): Testimony, RLM And Schedule RLM-12
Column (G): Intentionally Left Blank
Column (H): Testimony, RLM And Schedule RLM-13
Column (I): Sum Of Columns (A) Thru (H)

Bella Vista Water Company
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Test Year Ended March 31, 2009

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) APPROVED DEPRECIATION RATE	(C) TEST YEAR DEPRECIATION EXPENSE
1	301	Organization Cost	$ -	0.00%	$ -
2	302	Franchise Cost	961	0.00%	-
3	303	Land and Land Rights	688,011	0.00%	-
4	304	Structures and Improvements	1,929,428	3.33%	64,250
5	305	Collecting and Impounding Res.	51,378	2.50%	1,284
6	306	Lake River and Other Intakes	-	2.50%	-
7	307	Wells and Springs	1,300,212	3.33%	43,297
8	308	Infiltration Galleries and Tunnels	-	6.67%	-
9	309	Supply Mains	3,798	2.00%	76
10	310	Power Generation Equipment	1,293	5.00%	65
11	311	Electric Pumping Equipment	2,777,250	12.50%	347,156
12	320	Water Treatment Equipment	109,639	3.33%	3,651
13	320.1	Water Treatment Equipment	-	3.33%	-
14	320.2	Chemical Solution Feeders	-	20.00%	-
15	330	Dist. Reservoirs & Standpipe	2,709,163	2.22%	60,143
16	330.1	Storage tanks	-	2.22%	-
17	330.2	Pressure Tanks	-	5.00%	-
18	331	Trans. and Dist. Mains	12,818,287	2.00%	256,366
19	333	Services	1,500,252	3.33%	49,958
20	334	Meters	1,517,711	8.33%	126,425
21	335	Hydrants	970,159	2.00%	19,403
22	336	Backflow Prevention Devices	-	6.67%	-
23	339	Other Plant and Misc. Equip.	114,540	6.67%	7,640
24	340	Office Furniture and Fixtures	202,929	6.67%	13,535
25	340.1	Computers and Software	161,264	20.00%	32,253
26	341	Transportation Equipment	295,224	20.00%	59,045
27	342	Stores Equipment	-	4.00%	-
28	343	Tools and Work Equipment	124,953	5.00%	6,248
29	344	Laboratory Equipment	-	10.00%	-
30	345	Power Operated Equipment	31,548	5.00%	1,577
31	346	Communications Equipment	444,928	10.00%	44,493
32	347	Miscellaneous Equipment	110,348	10.00%	11,035
33	348	Other Tangible Plant	300,001	10.00%	30,000
34		Rounding	485		10
35	TOTAL WASTEWATER PLANT		$ 28,163,762		$ 1,177,911
	Less:				
36	Amortizations Of CIAC (RLM-2, Col. (C), Line 5)		$ (542,445)	4.2869%	(23,254)
37	TOTAL DEPRECIATION EXPENSE (Line 35 + Line 36)				$ 1,154,656
38	Test Year Depreciation Expense As Filed (Co. Sch. C-1)				1,122,442
39	Increase In Depreciation Expense (Line 37 - Line 37)				$ 32,214
40	RUCO Adjustment (Line 39) (See RLM-7, Column (B), Line 25)				$ 32,214

References: Column (A): RLM-4, Column (E)
Column (B): Company Schedule "C-2p1Depr"
Column (C): Column (A) X Column (B)

Bella Vista Water Company
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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT	(B) TOTAL
	Calculation Of The Company's Full Cash Value:			
	Annual Operating Revenues:			
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	$ 4,162,136	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	4,162,136	
3	Proposed Revenues	Sch. RLM-6, Col (E), Ln 4	4,919,615	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	$ 13,243,886	
5	Average Annual Operating Revenues	Line 4 / 3	4,414,629	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		$ 8,829,257
	ADD:			
	10% Of Construction Work In Progress ("CWIP"):			
7	Test Year CWIP	Co. Sch. E-1	$ 526,003	
8	10% Of CWIP	Line 7 X 10%		$ 52,600
	SUBTRACT:			
	Transportation At Book Value:			
9	Original Cost Of Transportation Equipment	RLM-4, Col. (E), Ln 26	$ 295,224	
10	Acc. Dep. Of Transportation Equipment	RLM-4, Col. (F), Ln 26	(291,918)	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		$ (3,305)
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		$ 8,878,553
	Calculation Of The Company's Tax Liability:			
	MULTIPLY:			
	FCV X Valuation Assessment Ratio X Property Tax Rates:			
13	Assessment Ratio	House Bill 2779	21.0%	
14	Assessed Value	Line 12 X Line 13	$ 1,864,496	
	Property Tax Rates:			
15	Primary Tax Rate - 2009 Tax Notice	Co. Sch. C-2, Pg 3	9.8984%	
16	Secondary Tax Rate - 2009 Tax Notice	Co. Sch. C-2, Pg 3	0.0000%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	9.90%	
18	Company's Tax Liability - Based On Full Cash Value	Line 14 X Line 17		$ 184,554
19	Company's Tax on Parcels	Co. Sch. C-2, Pg 3		$ 1,991
20	Company's Total Tax Liability	Line 18 + Line 19		$ 186,546
21	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1, Line 25		195,954
22	Increase In Property Tax Expense	Line 20 - Line 21		$ (9,408)
23	RUCO Adjustment (See RLM-7, Column (C), Line 27)	Line 22		$ (9,408)

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
DISALLOWANCE OF MISCELLANEOUS EXPENSES

LINE NO.	DESCRIPTION	REFERENCE	(A) TOTAL
	Disallowed Miscellaneous Expenses	Co. Response To Staff D. R. CSB 1-32	
1	Bella Vista Water Company Christmas Party		$ (2,000)
2	Special Olympics Pledge		(250)
3	Muscular Distrophy Association Donation		(250)
4	RUCO Adjustment To Unnecessary/Non-Recurring Expenses	Sum Of Lines 1 Thru 17	$ (2,500)
5	RUCO Adjustment (See RLM-7, Column (D))	Line 18	$ (2,500)

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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4
CENTRAL OFFICE COST ALLOCATIONS

LINE NO.	DESCRIPTION	(A) COMPANY ACTUAL COSTS (CAN $)	(B) RUCO ALLOWED % OF COSTS	(C) RUCO ALLOWABLE COSTS	(D) RUCO UTILITIES % ALLOCATION	(E) RUCO ALLOCATED COSTS	(F) ALLOCATION % To BVWC	(G) RUCO ALLOCATED BVWC COSTS
1	Audit	$ 778,285	25.00%	$ 194,571	24.29%	$ 47,253	14.52%	$ 6,863
2	Tax Services	518,775	25.00%	129,694	24.29%	31,497	14.52%	4,575
3	Legal	159,053	25.00%	39,763	24.29%	9,657	14.52%	1,403
4	Other Professional Services	506,082	0.00%	-	24.29%	-	14.52%	-
5	Management Fee - Total	644,943	0.00%	-	24.29%	-	14.52%	-
6	Unit Holder Communications	156,766	0.00%	-	24.29%	-	14.52%	-
7	Trustee Fees	129,000	0.00%	-	24.29%	-	14.52%	-
8	Escrow & Transfer Agent Fees	96,138	0.00%	-	24.29%	-	14.52%	-
9	Rent	307,337	0.00%	-	24.29%	-	14.52%	-
10	Licenses/Fees & Permits	17,561	0.00%	-	24.29%	-	14.52%	-
11	Office Expenses	579,379	0.00%	-	24.29%	-	14.52%	-
12	Depreciation	211,653	25.00%	52,913	24.29%	12,850	14.52%	1,866
13	TOTAL	$ 4,104,971		$ 416,941		$ 101,257		$ 14,707
14	Company's APT Cost Allocation for Bella Vista in Canadian Dollars (Per RUCO DR 3.01)							$ 160,881
15	Conversion Factor to Convert Canadian Dollars to US Dollars per http://moneycentral.msn.com on April 1, 2010							0.99147
16	Company's APT Cost Allocation for Bella Vista in US Dollars							$ 159,508
17	RUCO's Allowed APT Cost Allocations in US Dollars							$ 14,581
18	RUCO's APT Cost Allocation Adjustment for Bella Vista in US Dollars							(144,927)
19	RUCO Adjustment (See RLM-7, Column (E))							(144,927)

References:
Columns (A) (D) (F): Company Response To RUCO Data Requestion 3.01
Column (B): Testimony, RUCO Witness Tim Coley
Column (C): Sum Of Columns (A) & (B)
Column (E): Column (C) X Column (D)
Column (G): Column (E) X Column (F)

Bella Vista Water Company
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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
RATE CASE EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	$ 400,000	$ (200,000)	$ 200,000
2	Normalization Period - 3 Years			3
3	RUCO Adjusted Rate Case Expense For Instant Case (Line 1 / 3 Years)			$ 66,667
4	Company Rate Case Expenses As Filed (Company Sch. C-2)			$ 133,333
5	RUCO Pro Forma Rate Case Expense (Lines 3 - 4)			$ (66,667)
6	RUCO Adjustment (Line 5) (See RLM-7, Column (F))			$ (66,667)

	RUCO CALCULATED RATE CASE EXPENSES	REFERENCE	AMOUNT
	ACTUALS	Invoices Per Fennemore Craig	
7	Total Costs Through February 2010		$ 59,206
	ESTIMATES	Based On Estimate From Black Mountain Sewer Co.	
8	Remaining Costs For Company Witness Tom Borassa:		
9	Rebuttal, Surrebuttal, Rejoinder And Trial Process;		
10	Final Schedules, Assistance With Briefing, Evaluation Of ROO; Open Meeting Prep		25,000
11	Expedited Hearing Transcript		5,000
12	Fennemore Craig Estimated Remaining Costs		
13	Rebuttal, Surrebuttal, Rejoinder And Trial Process;		45,000
14	Briefing		30,000
15	Reviewing ROO; Exceptions Open Meeting Prep		10,000
16	Post Decision Compliance And Filings		15,000
17	Per Diam Expenses		10,000
18	Rounding		794
19	RUCO ESTIMATED RATE CASE EXPENSES		$ 200,000

Bella Vista Water Company
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EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE		(B) AMOUNT
	FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L29 + L27	$	181,672
	LESS:			
2	Arizona State Tax	Line 11		(5,953)
3	Interest Expense	Note (A) Line 20		(96,239)
4	Federal Taxable Income	Sum Of Lines 1 Thru 3	$	79,480
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34		34.00%
6	Federal Income Tax Expense	Line 4 X line 5	$	27,023
	STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	$	181,672
	LESS:			
8	Interest Expense	Note (A) Line 20		(96,239)
9	State Taxable Income	Sum Of Lines 7 & 8	$	85,433
10	State Tax Rate	Tax Rate		6.97%
11	State Income Tax Expense	Line 9 X Line 10	$	5,953
	TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	$	27,023
13	State Income Tax Expense	Line 11		5,953
14	Total Income Tax Expense Per RUCO	Line12 + Line 13	$	32,976
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)			(47,787)
16	Total Income Tax Adjustment	Line 14 - Line 15	$	80,763
17	RUCO Adjustment (See Sch. RLM-7, Column (K), L278)	Line16	$	80,763

NOTE (A):
Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (E), L15)	$	7,286,645
19	Weighted Cost Of Debt (Sch. RLM-14, Col. (F), L1)		1.32%
20	Interest Expense (L17 X L18)	$	96,239

Bella Vista Water Company
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Test Year Ended March 31, 2009

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) RUCO ADJTM'T	(C) RUCO ADJUSTED	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST RATE
1	Long-Term Debt	$ 1,697,323	$ -	$ 1,697,323	21.08%	6.27%	1.32%
2	Common Equity	6,354,582	-	6,354,582	78.92%	9.00%	7.10%
3	Total Capitalization	$ 8,051,905	$ -	$ 8,051,905	100.00%		
4	COST OF CAPITAL						8.42%

References:
Columns (A) Thru (F): See Testimony Of RUCO Witness William Rigsby

BELLA VISTA WATER COMPANY, INC.

DOCKET NO. W-02465A-09-0411 ET AL.

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 12, 2010

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ATTACHMENT D – Value Line Selected Yields

SCHEDULES WAR-1 THROUGH WAR-9

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please describe your qualifications in the field of utilities regulation and your educational background.

A. I have been involved with utilities regulation in Arizona since 1994. During that period of time I have worked as a utilities rate analyst for both the Arizona Corporation Commission ("ACC" or "Commission") and for RUCO. I hold a Bachelor of Science degree in the field of finance from Arizona State University and a Master of Business Administration degree, with an emphasis in accounting, from the University of Phoenix. I have been awarded the professional designation, Certified Rate of Return Analyst ("CRRA") by the Society of Utility and Regulatory Financial Analysts ("SURFA"). The CRRA designation is awarded based upon experience and the successful completion of a written examination. Appendix I, which is attached to my direct testimony on operating income further describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present recommendations that are based on my analysis of the applications for permanent changes in rates filed by three water systems owned by Liberty Water Company ("Liberty Water")[1]: Bella Vista Water Company, Inc. ("BVWC" or the "Company"), Northern Sunrise Water Company, Inc. ("NSWC")[2], and Southern Sunrise Water Company, Inc. ("SSWC")[3]. The three applications were filed with the Arizona Corporation Commission (ACC or Commission) on August 31, 2009. On September 1, 2009, BVWC filed a motion to consolidate the three applications into a joint application. On November 9, 2009, the Administrative Law Judge ("ALJ") assigned to the case issued a Procedural Order that consolidated the three applications into a joint application ("Joint Application"). The Company has chosen the operating period ended March 31, 2009 for the test year ("Test Year") in this proceeding. The Company has also elected not to perform a reconstruction cost new less depreciation study and is proposing that its original cost rate base be treated as its fair value rate base for ratemaking purposes. Therefore there is no need to perform a separate analysis to determine a fair value rate of return on a fair value rate base.

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[1] Based on documents provided to ACC Staff and RUCO during the recent Litchfield Park Services Company proceeding (Staff data request JMM 7.3, dated October 23, 2009), Algonquin Water Resources of America, Inc., the entity that held the BVWC, NSWC and SSWC systems at the time of the August 31, 2009 filing, changed its name to Liberty Water Company on April 27, 2009.

[2] W-20453A-09-0412

[3] W-20454A-09-0413

Q. Are you providing cost of capital testimony for each of the three Liberty Water systems on a stand alone basis?

A. No. In this round of testimony I am providing cost of capital testimony on a consolidated basis. As explained in the direct testimony of RUCO Director Jodi Jerich, RUCO will present schedules on a stand alone basis when RUCO's direct testimony on rate design is filed on April 23, 2010. At that time I will provide my capital structure recommendations for BVWC, NSWC and SSWC on a stand alone basis.

Q. Please describe Liberty Water.

A. Liberty Water is a wholly owned subsidiary of an entity known as Algonquin Power & Utilities Corp., which is listed on the Toronto Stock Exchange (ticker symbol AQN)[4]. In addition to BVWC, NSWC and SSWC, Liberty Water also owns and operates four other ACC regulated utilities: Black Mountain Sewer Corporation, which provides wastewater service to the Boulders Community in Carefree just north of Scottsdale; Gold Canyon Sewer Company, which is located east of Apache Junction; Litchfield Park Services Company, situated on the west side of the Phoenix metropolitan area; and Rio Rico Utilities, Inc., located just north of Nogales on the border between Arizona and Mexico.

[4] Algonquin Power & Utilities Corp. was previously organized as a Canadian-based mutual fund known as Algonquin Power Income Fund prior to a conversion that occurred during the last half of 2009. Algonquin Power Income Fund was also listed on the Toronto Stock Exchange (ticker symbol APF.UN).

Q. Please explain your role in RUCO's analysis of the Joint Application.

A. I reviewed the Joint Application and performed a cost of capital analysis to determine a fair rate of return on the Company's invested capital. In addition to my recommended capital structure, my direct testimony will present my recommended cost of common equity (the Company has no preferred stock) and my recommended cost of long-term debt. The recommendations contained in this testimony are based on information obtained from Company responses to data requests, the Joint Application and from market-based research that I conducted during my analysis.

Q. Were you also responsible for conducting an analysis on the Company's proposed revenue level and rate base?

A. No. The majority of those aspects of the case will be addressed in the direct testimony of RUCO witness Rodney L. Moore. RUCO witness Timothy J. Coley will provide testimony on the issues of accumulated deferred income taxes and cost allocations.

Q. Will RUCO be presenting direct testimony on the rate design issues I this case?

A. Yes. Mr. Moore will provide direct testimony on RUCO's recommended rate design, which is scheduled to be filed on April 23, 2010. As previously indicated, Ms. Jerich will address the policy issues related to rate design.

Q. What areas will you address in your testimony?

A. I will address the cost of capital issues associated with the case based on the Company-proposed consolidation.

Q. Please identify the exhibits that you are sponsoring.

A. I am sponsoring Schedules WAR-1 through WAR-9.

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Briefly summarize how your cost of capital testimony is organized.

A. My cost of capital testimony is organized into six sections. First, the introduction I have just presented and second, a summary of my testimony that I am about to give. Third, I will present the findings of my cost of equity capital analysis, which utilized both the discounted cash flow ("DCF") method, and the capital asset pricing model ("CAPM"). These are the two methods that RUCO and ACC Staff have consistently used for calculating the cost of equity capital in rate case proceedings in the past, and are the methodologies that the ACC has given the most weight to in setting allowed rates of return for utilities that operate in the Arizona jurisdiction. In this third section I will also provide a brief overview of the current economic climate within which the Company is operating. Fourth, I will discuss my recommended capital structure, my recommended cost of long-term debt and my recommended weighted average cost of capital. Sixth, I will comment on the Company's cost of capital testimony.

Schedules WAR-1 through WAR-9 will provide support for my cost of capital analysis.

Q. Please summarize the recommendations and adjustments that you will address in your testimony.

A. Based on the results of my analysis, I am making the following recommendations:

Cost of Equity Capital – I am recommending a 9.00 percent cost of equity capital. This 9.00 percent figure is based on the range of results that I obtained in my cost of equity analysis, which employed both the DCF and CAPM methodologies. My 9.00 percent cost of equity capital is 350 basis points lower than the 12.50 percent cost of equity capital being proposed by the Company.

Capital Structure – I am recommending that the Commission adopt the Company-proposed capital structure, which is comprised of 21.08 percent long-term debt and 78.92 percent common equity.

Cost of Debt – I am recommending that the Commission adopt the Company-proposed cost of debt of 6.27 percent, which is the average weighted cost of debt of BVWC's various loans

Weighted Average Cost of Capital – Based on the results of my recommended capital structure, I am recommending an 8.42 percent cost of capital for the Company, which is the weighted cost of my recommended costs of long-term debt and common equity. My recommended weighted average cost of capital is 277 basis points lower than the 11.19 percent weighted average cost of capital being proposed by the Company.

Q Why do you believe that RUCO's recommended 8.42 percent weighted average cost of capital is an appropriate rate of return for the Company to earn on its invested capital?

A. The 8.42 percent weighted average cost of capital figure that I am recommending meets the criteria established in the landmark Supreme Court cases of Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two cases affirmed that a public utility that is efficiently and economically managed is entitled to a return on investment that instills confidence in its financial soundness, allows the utility to attract capital, and also allows the utility to perform its duty to provide service to ratepayers. The rate of return adopted for the utility should also be comparable to a return that investors would expect to receive from investments with similar risk.

The Hope decision allows for the rate of return to cover both the operating expenses and the "capital costs of the business" which includes interest on debt and dividend payment to shareholders. This is predicated on the belief that, in the long run, a company that cannot meet its debt obligations and provide its shareholders with an adequate rate of return will not continue to supply adequate public utility service to ratepayers.

Q. Do the Bluefield and Hope decisions indicate that a rate of return sufficient to cover all operating and capital costs is guaranteed?

A. No. Neither case *guarantees* a rate of return on utility investment. What the Bluefield and Hope decisions *do allow*, is for a utility to be provided with the *opportunity* to earn a reasonable rate of return on its investment. That is to say that a utility, such as BVWC, is provided with the opportunity to earn an appropriate rate of return if the Company's management exercises good judgment and manages its assets and resources in a manner that is both prudent and economically efficient.

COST OF EQUITY CAPITAL

Q. What is your final recommended cost of equity capital for BVWC?

A. I am recommending a cost of equity of 9.00 percent. My recommended 9.00 percent cost of equity figure falls on the high side of the range of results derived from my DCF and CAPM analyses, which utilized both a sample of publicly traded water providers and a sample of publicly traded natural gas local distribution companies ("LDC"). The results of my DCF and CAPM analyses are summarized on page 3 of my Schedule WAR-1.

Discounted Cash Flow (DCF) Method

Q. Please explain the DCF method that you used to estimate the Company's cost of equity capital.

A. The DCF method employs a stock valuation model known as the constant growth valuation model, that bears the name of Dr. Myron J. Gordon (i.e. the Gordon model), the professor of finance who was responsible for its development. Simply stated, the DCF model is based on the premise that the current price of a given share of common stock is determined by the present value of all of the future cash flows that will be generated by that share of common stock. The rate that is used to discount these cash flows back to their present value is often referred to as the investor's cost of capital (i.e. the cost at which an investor is willing to forego other investments in favor of the one that he or she has chosen).

Another way of looking at the investor's cost of capital is to consider it from the standpoint of a company that is offering its shares of stock to the investing public. In order to raise capital, through the sale of common stock, a company must provide a required rate of return on its stock that will attract investors to commit funds to that particular investment. In this respect, the terms "cost of capital" and "investor's required return" are one in the same. For common stock, this required return is a function of the dividend that is paid on the stock. The investor's required rate of return can be expressed as the percentage of the dividend that is paid on the stock (dividend yield) plus an expected rate of future dividend growth. This is illustrated in mathematical terms by the following formula:

$$k = \frac{D_1}{P_0} + g$$

where: k = the required return (cost of equity, equity capitalization rate),

$\frac{D_1}{P_0}$ = the dividend yield of a given share of stock calculated by dividing the expected dividend by the current market price of the given share of stock, and

g = the expected rate of future dividend growth

This formula is the basis for the standard growth valuation model that I used to determine the Company's cost of equity capital.

Q. In determining the rate of future dividend growth for the Company, what assumptions did you make?

A. There are two primary assumptions regarding dividend growth that must be made when using the DCF method. First, dividends will grow by a constant rate into perpetuity, and second, the dividend payout ratio will remain at a constant rate. Both of these assumptions are predicated on the traditional DCF model's basic underlying assumption that a company's earnings, dividends, book value and share growth all increase at the same constant rate of growth into infinity. Given these assumptions, if the dividend payout ratio remains constant, so does the earnings retention ratio (the percentage of earnings that are retained by the company as opposed to being paid out in dividends). This being the case, a company's dividend growth can be measured by multiplying its retention ratio (1 - dividend payout ratio) by its book return on equity. This can be stated as $g = b \times r$.

Q. Would you please provide an example that will illustrate the relationship that earnings, the dividend payout ratio and book value have with dividend growth?

A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens Utilities Company 1993 rate case by using a hypothetical utility.[5]

Table I

	Year 1	Year 2	Year 3	Year 4	Year 5	Growth
Book Value	$10.00	$10.40	$10.82	$11.25	$11.70	4.00%
Equity Return	10%	10%	10%	10%	10%	N/A
Earnings/Sh.	$1.00	$1.04	$1.082	$1.125	$1.170	4.00%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	$0.60	$0.624	$0.649	$0.675	$0.702	4.00%

[5] Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

Table I of Mr. Hill's illustration presents data for a five-year period on his hypothetical utility. In Year 1, the utility had a common equity or book value of $10.00 per share, an investor-expected equity return of ten percent, and a dividend payout ratio of sixty percent. This results in earnings per share of $1.00 ($10.00 book value x 10 percent equity return) and a dividend of $0.60 ($1.00 earnings/sh. x 0.60 payout ratio) during Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's earnings are retained as opposed to being paid out to investors, book value increases to $10.40 in Year 2 of Mr. Hill's illustration. Table I presents the results of this continuing scenario over the remaining five-year period.

The results displayed in Table I demonstrate that under "steady-state" (i.e. constant) conditions, book value, earnings and dividends all grow at the same constant rate. The table further illustrates that the dividend growth rate, as discussed earlier, is a function of (1) the internally generated funds or earnings that are retained by a company to become new equity, and (2) the return that an investor earns on that new equity. The DCF dividend growth rate, expressed as g = b x r, is also referred to as the internal or sustainable growth rate.

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Q. If earnings and dividends both grow at the same rate as book value, shouldn't that rate be the sole factor in determining the DCF growth rate?

A. No. Possible changes in the expected rate of return on either common equity or the dividend payout ratio make earnings and dividend growth by themselves unreliable. This can be seen in the continuation of Mr. Hill's illustration on a hypothetical utility.

Table II

	Year 1	Year 2	Year 3	Year 4	Year 5	Growth
Book Value	$10.00	$10.40	$10.82	$11.47	$12.158	5.00%
Equity Return	10%	10%	15%	15%	15%	10.67%
Earnings/Sh	$1.00	$1.04	$1.623	$1.720	$1.824	16.20%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	$0.60	$0.624	$0.974	$1.032	$1.094	16.20%

In the example displayed in Table II, a sustainable growth rate of four percent[6] exists in Year 1 and Year 2 (as in the prior example). In Year 3, Year 4 and Year 5, however, the sustainable growth rate increases to six percent.[7] If the hypothetical utility in Mr. Hill's illustration were expected to earn a fifteen-percent return on common equity on a continuing basis, then a six percent long-term rate of growth would be reasonable. However, the compound growth rate for earnings and dividends, displayed in the last column, is 16.20 percent. If this rate was to be used in the

[6] [(Year 2 Earnings/Sh – Year 1 Earnings/Sh) ÷ Year 1 Earnings/Sh] = [($1.04 - $1.00) ÷ $1.00] = [$0.04 ÷ $1.00] = 4.00%

[7] [(1 – Payout Ratio) x Rate of Return] = [(1 - 0.60) x 15.00%] = 0.40 x 15.00% = 6.00%

DCF model, the utility's return on common equity would be expected to increase by fifty percent every five years, [(15 percent ÷ 10 percent) – 1]. This is clearly an unrealistic expectation.

Although it is not illustrated in Mr. Hill's hypothetical example, a change in only the dividend payout ratio will eventually result in a utility paying out more in dividends than it earns. While it is not uncommon for a utility in the real world to have a dividend payout ratio that exceeds one hundred percent on occasion, it would be unrealistic to expect the practice to continue over a sustained long-term period of time.

Q. Other than the retention of internally generated funds, as illustrated in Mr. Hill's hypothetical example, are there any other sources of new equity capital that can influence an investor's growth expectations for a given company?

A. Yes, a company can raise new equity capital externally. The best example of external funding would be the sale of new shares of common stock. This would create additional equity for the issuer and is often the case with utilities that are either in the process of acquiring smaller systems or providing service to rapidly growing areas.

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Q. How does external equity financing influence the growth expectations held by investors?

A. Rational investors will put their available funds into investments that will either meet or exceed their given cost of capital (i.e. the return earned on their investment). In the case of a utility, the book value of a company's stock usually mirrors the equity portion of its rate base (the utility's earning base). Because regulators allow utilities the opportunity to earn a reasonable rate of return on rate base, an investor would take into consideration the effect that a change in book value would have on the rate of return that he or she would expect the utility to earn. If an investor believes that a utility's book value (i.e. the utility's earning base) will increase, then he or she would expect the return on the utility's common stock to increase. If this positive trend in book value continues over an extended period of time, an investor would have a reasonable expectation for sustained long-term growth.

Q. Please provide an example of how external financing affects a utility's book value of equity.

A. As I explained earlier, one way that a utility can increase its equity is by selling new shares of common stock on the open market. If these new shares are purchased at prices that are higher than those shares sold previously, the utility's book value per share will increase in value. This would increase both the earnings base of the utility and the earnings expectations of investors. However, if new shares sold at a price below the pre-sale book value per share, the after-sale book value per share declines in value. If this downward trend continues over time, investors might view this as a decline in the utility's sustainable growth rate and will have lower expectations regarding growth. Using this same logic, if a new stock issue sells at a price per share that is the same as the pre-sale book value per share, there would be no impact on either the utility's earnings base or investor expectations.

Q. Please explain how the external component of the DCF growth rate is determined.

A. In his book, The Cost of Capital to a Public Utility,[8] Dr. Gordon (the individual responsible for the development of the DCF or constant growth model) identified a growth rate that includes both expected internal and external financing components. The mathematical expression for Dr. Gordon's growth rate is as follows:

$$g = (br) + (sv)$$

where: g = DCF expected growth rate,

b = the earnings retention ratio,

r = the return on common equity,

s = the fraction of new common stock sold that

[8] Gordon, M.J., The Cost of Capital to a Public Utility, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

accrues to a current shareholder, and

v = funds raised from the sale of stock as a fraction of existing equity.

and v = 1 - [(BV) ÷ (MP)]

where: BV = book value per share of common stock, and

MP = the market price per share of common stock.

Q. Did you include the effect of external equity financing on long-term growth rate expectations in your analysis of expected dividend growth for the DCF model?

A. Yes. The external growth rate estimate (sv) is displayed on Page 1 of Schedule WAR-4, where it is added to the internal growth rate estimate (br) to arrive at a final sustainable growth rate estimate.

Q. Please explain why your calculation of external growth on page 2 of Schedule WAR-4, is the current market-to-book ratio averaged with 1.0 in the equation [(M ÷ B) + 1] ÷ 2.

A. The market price of a utility's common stock will tend to move toward book value, or a market-to-book ratio of 1.0, if regulators allow a rate of return that is equal to the cost of capital (one of the desired effects of regulation). As a result of this situation, I used [(M ÷ B) + 1] ÷ 2 as opposed to the current market-to-book ratio by itself to represent investor's expectations that, in the future, a given utility will achieve a market-to-book ratio of 1.0.

Q. Has the Commission ever adopted a cost of capital estimate that included this assumption?

A. Yes. In a prior Southwest Gas Corporation rate case[9], the Commission adopted the recommendations of ACC Staff's cost of capital witness, Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill used the same methods that I have used in arriving at the inputs for the DCF model. His final recommendation for Southwest Gas Corporation was largely based on the results of his DCF analysis, which incorporated the same valid market-to-book ratio assumption that I have used consistently in the DCF model as a cost of capital witness for RUCO.

Q. How did you develop your dividend growth rate estimate?

A. I analyzed data on two separate proxy groups. A water company proxy group comprised of three publicly traded water companies and a natural gas proxy group consisting of ten natural gas local distribution companies ("LDC") that have similar operating characteristics to water providers.

Q. Why did you use a proxy group methodology as opposed to a direct analysis of the Company?

A. One of the problems in performing this type of analysis is that the utility applying for a rate increase is not always a publicly traded company, as is the case with BVWC, NSWC and SSWC. Consequently it was necessary

[9] Decision No. 68487, Dated February 23, 2006 (Docket No. G-01551A-04-0876)

to create a proxy by analyzing publicly traded water companies and LDC's with similar risk characteristics.

Q. Are there any other advantages to the use of a proxy?

A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope decision that a utility is entitled to earn a rate of return that is commensurate with the returns on investments of other firms with comparable risk. The proxy technique that I have used derives that rate of return. One other advantage to using a sample of companies is that it reduces the possible impact that any undetected biases, anomalies, or measurement errors may have on the DCF growth estimate.

Q. What criteria did you use in selecting the companies that make up your water company proxy for the Company?

A. The three water companies used in the proxy are publicly traded on the New York Stock Exchange ("NYSE"). All three water companies are followed by The Value Line Investment Survey ("Value Line") and are the same companies that comprise Value Line's large capitalization Water Utility Industry segment of the U.S. economy (Attachment A contains Value Line's January 22, 2010 update of the water utility industry and evaluations of the water companies used in my proxy).

Q. Are these the same water utilities that you have used in prior rate case proceedings?

A. Yes. However, in prior proceedings I have also included a fourth water provider known as Southwest Water Company ("SWWC") which is traded over the counter through the National Association of Securities Dealers Automated Quotation System ("NASDAQ").

Q. Why did you exclude SWWC from your sample in this proceeding?

A. On March 3, 2010 SWWC announced that it had entered into a definitive merger agreement to be acquired for approximately $275 million in cash, or $11.00 per share (almost 2.5 times SWWC's 2009 book value per share), by institutional investors advised by J.P. Morgan Asset Management and Water Asset Management L.L.C. As a result of this situation, the Company's stock price is being driven by the offer price and is no longer suitable for use in my sample.

Q. Please describe the companies that comprise your water company proxy group.

A. My water company proxy group includes American States Water Co. (stock ticker symbol "AWR"), California Water Service Group ("CWT") and Aqua America, Inc. ("WTR"). Each of these water companies face the same types of risk that the Company faces. For the sake of brevity, I will refer to each of these companies by their appropriate stock ticker symbols henceforth.

Q. Briefly describe the areas served by the companies in your water company sample proxy.

A. In addition to providing water service to residents of Fountain Hills, Arizona through its wholly owned subsidiary Chaparral City Water Company, AWR also serves communities located in Los Angeles, Orange and San Bernardino counties in California. CWT provides service to customers in seventy-five communities in California, New Mexico and Washington. CWT's principal service areas are located in the San Francisco Bay area, the Sacramento, Salinas and San Joaquin Valleys and parts of Los Angeles. WTR is a holding company for a large number of water and wastewater utilities operating in nine different states including Pennsylvania, Ohio, New Jersey, Illinois, Maine, North Carolina, Texas, Florida and Kentucky.

Q. Are these the same water companies that were used in the Joint Application?

A. The Company's cost of equity witness, Mr. Thomas J. Bourassa, used the same water companies included in my proxy. Mr. Bourassa also used three other water companies in his cost of capital analysis[10] which are included in Value Line's Small and Mid Cap Edition.

Q. Why did you exclude the water companies that are followed in Value Line's Small and Mid Cap Edition?

A. Value Line does not provide the same type of forward-looking information (i.e. long-term estimates on return on common equity and share growth) on small and mid-cap companies that it provides on the three water companies that I used in my proxy. Consequently, as in the case of Southwest Water Company, these water providers are not as suitable as the ones that I have used in my analysis.

Q. What criteria did you use in selecting the natural gas LDC's included in your proxy for the Company?

A. As are the water companies that I just described, each of the natural gas LDC's used in the proxy are publicly traded on a major stock exchange (all ten trade on the NYSE) and are followed by Value Line. Each of the ten LDC's in my sample are tracked in Value Line's natural gas Utility industry segment. All of the companies in the proxy are engaged in the provision of regulated natural gas distribution services. Attachment B of my testimony contains Value Line's most recent evaluation of the natural gas proxy group that I used for my cost of common equity analysis.

[10] Connecticut Water Service, Inc., Middlesex Water Company and SJW Corp.

Q. What companies are included your natural gas proxy?

A. The ten natural gas LDC's included in my proxy (and their NYSE ticker symbols) are AGL Resources, Inc. ("AGL"), Atmos Energy Corp. ("ATO"), Laclede Group, Inc. ("LG"), New Jersey Resources Corporation ("NJR"), Nicor, Inc. ("GAS"), Northwest Natural Gas Co. ("NWN"), Piedmont Natural Gas Company ("PNY"), South Jersey Industries, Inc. ("SJI") Southwest Gas Corporation ("SWX"), which is the dominant natural gas provider in Arizona, and WGL Holdings, Inc. ("WGL"). These are the same ten LDC's that I analyzed in the most recent UNS Gas, Inc. proceeding.[11]

Q. Briefly describe the regions of the U.S. served by the ten natural gas LDC's that make up your sample proxy.

A. The ten LDC's listed above provide natural gas service to customers in the Middle Atlantic region (i.e. NJI which serves portions of northern New Jersey, SJI which serves southern New Jersey and WGL which serves the Washington D.C. metro area), the Southeast and South Central portions of the U.S. (i.e. AGL which serves Virginia, southern Tennessee and the Atlanta, Georgia area and PNY which serves customers in North Carolina, South Carolina and Tennessee), the South, deep South and Midwest (i.e. ATO which serves customers in Kentucky, Mississippi, Louisiana, Texas, Colorado and Kansas, GAS which provides service to northern and

[11] Docket No. G-04204A-06-0463

western Illinois, and LG which serves the St. Louis area), and the Pacific Northwest (i.e. NWN which serves Washington state and Oregon). Portions of Arizona, Nevada and California are served by SWX.

Q. Did the Company's witness also perform a similar analysis using natural gas LDC's?

A. No, he did not.

Q. Please explain your DCF growth rate calculations for the sample companies used in your proxy.

A. Schedule WAR-5 provides retention ratios, returns on book equity, internal growth rates, book values per share, numbers of shares outstanding, and the compounded share growth for each of the utilities included in the sample for the historical observation period 2004 to 2008 for the water utilities and 2005 to 2009 for the LDC's. Schedule WAR-5 also includes Value Line's projected 2009, 2010 and 2012-14 values for the retention ratio, equity return, book value per share growth rate, and number of shares outstanding for the water utilities and the same data projections over 2010, 2011 and 2013-15 for the LDC's.

. . .

Q. Please describe how you used the information displayed in Schedule WAR-5 to estimate each comparable utility's dividend growth rate.

A. In explaining my analysis, I will use AWR as an example. The first dividend growth component that I evaluated was the internal growth rate. I used the "b x r" formula (described on pages 12 and 13) to multiply AWR's earned return on common equity by its earnings retention ratio for each year in the 2004 to 2008 observation period to derive the utility's annual internal growth rates. I used the mean average of this five-year period as a benchmark against which I compared the projected growth rate trends provided by Value Line. Because an investor is more likely to be influenced by recent growth trends, as opposed to historical averages, the five-year mean noted earlier was used only as a benchmark figure. As shown on Schedule WAR-5, Page 1, AWR's average internal growth rate of 2.62 percent over the 2004 to 2008 time frame reflects an up and down pattern of growth that ranged from a low of 1.01 percent in 2004 to a high of 3.79 percent during 2007. Value Line is predicting that growth will increase steadily from 3.05 percent in 2008, to 6.37 percent by the end of the 2012-14 time frame. After weighing Value Line's projections on earnings, I believe that a 6.25% rate of growth is reasonable for AWR (Schedule WAR-4, Page 1 of 2).

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Q. Please continue with the external growth rate component portion of your analysis.

A. Schedule WAR-5 demonstrates that the pattern of shares outstanding for AWR increased from 16.75 million to 17.30 million from 2004 to 2008. Value Line is predicting that this level will increase from 18.60 million in 2009 to 20.00 million by the end of 2014. Based on this data, I believe that a 5.00 percent growth in shares is not unreasonable for AWR (Page 2 of Schedule WAR-4). My final dividend growth rate estimate for AWR is 7.99 percent (6.25 percent internal + 1.74 percent external) and is shown on Page 1 of Schedule WAR-4.

Q. What is your average DCF dividend growth rate estimate for your sample of water utilities?

A. My average DCF dividend growth rate estimate for my water company sample is 6.67 percent as displayed on page 1 of Schedule WAR-4.

Q. Did you use the same approach to determine an average dividend growth rate for the proxy comprised of natural gas LDC's?

A. Yes.

...

Q. What is your average DCF dividend growth rate estimate for the sample natural gas utilities?

A. My average DCF dividend growth rate estimate is 5.64 percent, which is also displayed on page 1 of Schedule WAR-4.

Q. How does your average dividend growth rate estimates on water companies compare to the growth rate data published by Value Line and other analysts?

A. Schedule WAR-6 compares my growth estimates with the five-year projections of analysts at both Zacks Investment Research, Inc. ("Zacks") (Attachment C) and Value Line. In the case of the water companies, my 6.67 percent estimate exceeds Zacks' average long-term EPS projection of 6.23 percent and Value Line's growth projection of 5.58 percent (which is an average of EPS, DPS and BVPS). My 6.67 percent estimate is 101 basis points higher than the 5.66 percent average of Value Line's historical and projected data averaged with the consensus opinions published by Zacks. My 6.67 percent growth estimate is also 111 basis points higher than Value Line's 5.56 percent 5-year compound historical average of EPS, DPS and BVPS. The estimates of analysts at Value Line indicate that investors are expecting somewhat higher performance from the water utility industry in the future given their 6.50 percent to 8.00 percent book return on common equity over the 2009 to 2014 period. On balance, I would say my 6.67 percent estimate is a good representation of the growth projections that are available to the investing public.

Q. How do your average dividend growth rate estimates on natural gas LDC's compare to the growth rate data published by Value Line and other analysts?

A. In regard to the natural gas LDC's, my 5.64 percent estimate falls between the average 5.98 percent long-term EPS consensus projections published by Zacks, and the 4.34 percent Value Line projected estimate (which is an average of EPS, DPS and BVPS). As can also be seen on Schedule WAR-6, the 5.64 percent estimate that I have calculated is 44 basis points lower than the 6.08 percent average of the 5-year historic EPS, DPS and BVPS means of Value Line. In fact, my 6.45 percent estimate is 36 basis points higher than the combined 5.28 percent Value Line and Zacks averages displayed in Schedule WAR-6. In the case of the LDC's I would say that my 5.64 percent estimate, which is lower than Zacks' estimates but higher than Value Line's forecasts, is also a reasonable representation of the growth projections presented by securities analysts at this point in time.

Q. How did you calculate the dividend yields displayed in Schedule WAR-3?

A. For both the water companies and the natural gas LDC's I used the estimated annual dividends, for the next twelve-month period, that appeared in Value Line's January 22, 2010 Ratings and Reports water utility industry update and Value Line's March 12, 2010 Ratings and Reports natural gas utility update. I then divided those figures by the eight-week average closing price per share of the appropriate utility's common stock. The eight-week average price is based on the daily adjusted closing stock prices for each of the companies in my proxies for the period February 1, 2010 to March 26, 2010.

Q. Based on the results of your DCF analysis, what is your cost of equity capital estimate for the water and natural gas utilities included in your sample?

A. As shown on Schedule WAR-2, the cost of equity capital derived from my DCF analysis is 9.93 percent for the water utilities and 9.90 percent for the natural gas LDC's.

Capital Asset Pricing Model (CAPM) Method

Q. Please explain the theory behind CAPM and why you decided to use it as an equity capital valuation method in this proceeding.

A. CAPM is a mathematical tool that was developed during the early 1960's by William F. Sharpe[12], the Timken Professor Emeritus of Finance at Stanford University, who shared the 1990 Nobel Prize in Economics for

[12] William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

research that eventually resulted in the CAPM model. CAPM is used to analyze the relationships between rates of return on various assets and risk as measured by beta.[13] In this regard, CAPM can help an investor to determine how much risk is associated with a given investment so that he or she can decide if that investment meets their individual preferences. Finance theory has always held that as the risk associated with a given investment increases, so should the expected rate of return on that investment and vice versa. According to CAPM theory, risk can be classified into two specific forms: nonsystematic or diversifiable risk, and systematic or non-diversifiable risk. While nonsystematic risk can be virtually eliminated through diversification (i.e. by including stocks of various companies in various industries in a portfolio of securities), systematic risk, on the other hand, cannot be eliminated by diversification. Thus, systematic risk is the only risk of importance to investors. Simply stated, the underlying theory behind CAPM states that the expected return on a given investment is the sum of a risk-free rate of return plus a market risk premium that is proportional to the systematic (non-diversifiable risk) associated with that investment. In mathematical terms, the formula is as follows:

[13] Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

$$k = r_f + [\,ß\,(r_m - r_f)\,]$$

where:

k	=	the expected return of a given security,
r_f	=	risk-free rate of return,
$ß$	=	beta coefficient, a statistical measurement of a security's systematic risk,
r_m	=	average market return (e.g. S&P 500), and
$r_m - r_f$	=	market risk premium.

Q. What types of financial instruments are generally used as a proxy for the risk-free rate of return in the CAPM model?

A. Generally speaking, the yields of U.S. Treasury instruments are used by analysts as a proxy for the risk-free rate of return component.

Q. Please explain why U.S. Treasury instruments are regarded as a suitable proxy for the risk-free rate of return?

A. As citizens and investors, we would like to believe that U.S. Treasury securities (which are backed by the full faith and credit of the United States Government) pose no threat of default no matter what their maturity dates are. However, a comparison of various Treasury instruments will reveal that those with longer maturity dates do have slightly higher yields. Treasury yields are comprised of two separate components,[14] a real rate

[14] As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the real rate of interest, an inflationary expectation, and a risk

of interest (believed to be approximately 2.00 percent) and an inflationary expectation. When the real rate of interest is subtracted from the total treasury yield, all that remains is the inflationary expectation. Because increased inflation represents a potential capital loss, or risk, to investors, a higher inflationary expectation by itself represents a degree of risk to an investor. Another way of looking at this is from an opportunity cost standpoint. When an investor locks up funds in long-term T-Bonds, compensation must be provided for future investment opportunities foregone. This is often described as maturity or interest rate risk and it can affect an investor adversely if market rates increase before the instrument matures (a rise in interest rates would decrease the value of the debt instrument). As discussed earlier in the DCF portion of my testimony, this compensation translates into higher rates of returns to the investor.

Q. What security did you use for a risk-free rate of return in your CAPM analysis?

A. I used an eight-week average of the yield on a 5-year U.S. Treasury instrument. The yields were published in Value Line's Selection and Opinion publication dated January 5, 2010 through March 26, 2010 (Attachment D). This resulted in a risk-free (r_f) rate of return of 2.36 percent.

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premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

Q. Why did you use the yield on a 5-year year U.S. Treasury instrument as opposed to a short-term T-Bill?

A. While a shorter term instrument, such as a 91-day T-Bill, presents the lowest possible total risk to an investor, a good argument can be made that the yield on an instrument that matches the investment period of the asset being analyzed in the CAPM model should be used as the risk-free rate of return. Since utilities in Arizona generally file for rates every three to five years, the yield on a 5-year U.S. Treasury Instrument closely matches the investment period or, in the case of regulated utilities, the period that new rates will be in effect.

Q. How did you calculate the market risk premium used in your CAPM analysis?

A. I used both a geometric and an arithmetic mean of the historical total returns on the S&P 500 index from 1926 to 2008 as the proxy for the market rate of return (r_m). For the risk-free portion of the risk premium component (r_f), I used the geometric mean of the total returns of intermediate-term government bonds for the same eighty-two year period. The market risk premium (r_m - r_f) that results by using the geometric mean of these inputs is 4.20 percent (9.60% - 5.40% = 4.20%). The market risk premium that results by using the arithmetic mean calculation is 6.10 percent (11.70% - 5.60% = 6.10%).

Q. How did you select the beta coefficients that were used in your CAPM analysis?

A. The beta coefficients (ß), for the individual utilities used in both my proxies, were calculated by Value Line and were current as of January 22, 2010 for the water companies and March 12, 2010 for the natural gas LDC's. Value Line calculates its betas by using a regression analysis between weekly percentage changes in the market price of the security being analyzed and weekly percentage changes in the NYSE Composite Index over a five-year period. The betas are then adjusted by Value Line for their long-term tendency to converge toward 1.00. The beta coefficients for the service providers included in my water company sample ranged from 0.65 to 0.80 with an average beta of 0.73. The beta coefficients for the LDC's included in my natural gas sample ranged from 0.60 to 0.75 with an average beta of 0.66.

Q. What are the results of your CAPM analysis?

A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation using a geometric mean to calculate the risk premium results in an average expected return of 5.44 percent for the water companies and 5.13 percent for the natural gas LDC's. My calculation using an arithmetic mean results in an average expected return of 6.83 percent for the water companies and 6.39 percent for the natural gas LDC's.

Q. Please summarize the results derived under each of the methodologies presented in your testimony.

A. The following is a summary of the cost of equity capital derived under each methodology used:

METHOD	**RESULTS**
DCF (Water Sample)	9.93%
DCF (Natural Gas Sample)	9.90%
CAPM (Water Sample)	5.44% – 6.83%
CAPM (Natural Gas)	5.13% – 6.39%

Based on these results, my best estimate of an appropriate range for a cost of common equity for the Company is 5.13 percent to 9.93 percent. My final recommended cost of common equity figure is 9.00 percent.

Q How did you arrive at your final recommended 9.00 percent cost of common equity?

A. My recommended 9.00 percent cost of common equity falls on the high side of the range of estimates obtained from my DCF and CAPM analyses. My final estimate takes into consideration reports on the improving state of the national economy which began in the later part of 2009, a rejuvenated stock market and reports in the financial press which anticipate Federal Reserve actions to raise interest rates. I also weighed information on Arizona's current rate of unemployment in making my final cost of equity estimate.

Q. Can you provide some examples of the reports that you noted above that influenced your common equity estimate of 9.00 percent?

A. Yes. Value Line analysts cited the improving economic situation in the Economic and Stock Market Commentary section of its Selection & Opinion publication dated November 27, 2009:

> **The long recession has faded into history,** brought to an end in the third quarter when the nation's gross domestic product increased by a solid 3.5% [later revised to 2.8%]. That notable rebound followed four straight quarters of contracting economic activity. The recession was the worst in decades. The third quarter's surge in activity, which was underpinned to some degree by federal programs to assist the troubled auto and housing industries, may not continue to the same degree in the current period. In fact, we expect GDP growth to ease to a level closer to 2.0%-2.5% during the fourth quarter. We think that the evolving expansion will then remain on a similarly subdued path for much of 2010. Thereafter, an increasing level of aggregate demand is likely to develop—with belated help from better employment and housing trends—and push the economy onto a materially faster track by 2011. The 3.0%, or better, pace of economic growth that we see evolving by that time is likely to then continue through the middle years of the coming decade.

Value Line's analysts had this to say about the state of the stock market:

> Unlike the economy, which has proceeded on an irregular path during the formative stages of its comeback, the stock market, which lost more than half of its value from October, 2007 through March, 2009, has come roaring back. At press time, the Dow Jones Industrial Average was up about 60% from its bear market lows of this past March. However, it was still some 25% below the record highs set in late 2007. The market's revival, which began as the worst fears on the credit and business fronts didn't materialize, has been sustained with an assist from the Federal Reserve, the government's stimulus efforts, and the aforementioned revivals on the economic and profit fronts. Now, with valuations having become a little stretched following eight months of steady market increases, the bulls may have to deliver even more good news to keep the rally going.

In regard to possible Federal Reserve action on interest rates, Wall Street Journal correspondent Jon Hilsenrath recently reported[15] that "Federal Reserve officials are thinking mostly these days about how to unwind the unprecedented stimulus they've pumped into the economy" and that eventually will mean raising interest rates. Mr. Hilsenrath quoted former Fed governor Frederic Mishkin, a former Federal Reserve governor who advocated moving rates down swiftly leading up to crises and who says they might someday need to move up swiftly too, as saying "If you move in a very gradual fashion back up when you need to, you'll get behind the curve in terms of tightening fast enough." Based on the information obtained from these sources, I began increasing my cost of equity recommendations to reflect an improving economy, an improved stock market and the increased possibility of higher interest rates in the coming 12 month period.

Q. Have the trends in the national economy and the stock market continued since the latter part of 2009?

A. Yes. As of March 26, 2010, Value Line's analysts are estimating that the national economy, which grew by 5.9% during the fourth quarter of 2009, will increase by 2.50 percent to 3.00 percent during the first quarter of 2010. Value Line expects that increases in consumer spending and

[15] Hilsenrath, Jon, "WSJ Fed's Path to Higher Interest Rates Begins to Take Shape" The Wall Street Journal, November 2, 2009

business equipment will offset further weakness in homebuilding. For the most part, stock market indices (e.g. the Dow Jones Industrial Average and the S&P 500 Index) have remained at levels at or above where they were during November of 2009.

Q. How is Arizona faring in terms of unemployment during this period of economic recovery?

A. According to a U.S. Bureau of Labor Statistics news release on March, 26, 2010, unemployment in Arizona had increased from 8.30 percent in February 2009 to 9.50 percent in February 2010.

Q. How does your recommended cost of equity capital compare with the cost of equity capital proposed by the Company?

A. The 12.50 percent cost of equity capital proposed by the Company is 350 basis points higher than the 9.00 percent cost of equity capital that I am recommending.

Current Economic Environment

Q. Please explain why it is necessary to consider the current economic environment when performing a cost of equity capital analysis for a regulated utility.

A. Consideration of the economic environment is necessary because trends in interest rates, present and projected levels of inflation, and the overall state of the U.S. economy determine the rates of return that investors earn on their invested funds. Each of these factors represent potential risks that must be weighed when estimating the cost of equity capital for a regulated utility and are, most often, the same factors considered by individuals who are also investing in non-regulated entities.

Q. Please discuss your analysis of the current economic environment.

A. My analysis includes a brief review of the economic events that have occurred since 1990. Schedule WAR-8 displays various economic indicators and other data that I will refer to during this portion of my testimony.

In 1991, as measured by the most recently revised annual change in gross domestic product ("GDP"), the U.S. economy experienced a rate of growth of negative 0.20 percent. This decline in GDP marked the beginning of a mild recession that ended sometime before the end of the first half of 1992. Reacting to this situation, the Federal Reserve Board ("Federal Reserve" or "Fed"), then chaired by noted economist Alan Greenspan, lowered its benchmark federal funds rate[16] in an effort to further loosen monetary constraints - an action that resulted in lower interest rates.

[16] This is the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

During this same period, the nation's major money center banks followed the Federal Reserve's lead and began lowering their interest rates as well. By the end of the fourth quarter of 1993, the prime rate (the rate charged by banks to their best customers) had dropped to 6.00 percent from a 1990 level of 10.01 percent. In addition, the Federal Reserve's discount rate on loans to its member banks had fallen to 3.00 percent and short-term interest rates had declined to levels that had not been seen since 1972.

Although GDP increased in 1992 and 1993, the Federal Reserve took steps to increase interest rates beginning in February of 1994, in order to keep inflation under control. By the end of 1995, the Federal discount rate had risen to 5.21 percent. Once again, the banking community followed the Federal Reserve's moves. The Fed's strategy, during this period, was to engineer a "soft landing." That is to say that the Federal Reserve wanted to foster a situation in which economic growth would be stabilized without incurring either a prolonged recession or runaway inflation.

Q. Did the Federal Reserve achieve its goals during this period?

A. Yes. The Fed's strategy of decreasing interest rates to stimulate the economy worked. The annual change in GDP began an upward trend in 1992. A change of 4.50 percent and 4.20 percent were recorded at the end of 1997 and 1998 respectively. Based on daily reports that were presented in the mainstream print and broadcast media during most of

1999, there appeared to be little doubt among both economists and the public at large that the U.S. was experiencing a period of robust economic growth highlighted by low rates of unemployment and inflation. Investors, who believed that technology stocks and Internet company start-ups (with little or no history of earnings) had high growth potential, purchased these types of issues with enthusiasm. These types of investors, who exhibited what former Chairman Greenspan described as "irrational exuberance," pushed stock prices and market indexes to all time highs from 1997 to 2000.

Q. What has been the state of the economy since 2001?

A. The U.S. economy entered into a recession near the end of the first quarter of 2001. The bullish trend, which had characterized the last half of the 1990's, had already run its course sometime during the third quarter of 2000. Economic data released since the beginning of 2001 had already been disappointing during the months preceding the September 11, 2001 terrorist attacks on the World Trade Center and the Pentagon. Slower growth figures, rising layoffs in the high technology manufacturing sector, and falling equity prices (due to lower earnings expectations) prompted the Fed to begin cutting interest rates as it had done in the early 1990's. The now infamous terrorist attacks on New York City and Washington D.C. marked a defining point in this economic slump and prompted the Federal Reserve to continue its rate cutting actions through December

2001. Prior to the 9/11 attacks, commentators, reporting in both the mainstream financial press and various economic publications including Value Line, believed that the Federal Reserve was cutting rates in the hope of avoiding a recession.

Despite several intervals during 2002 and 2003 in which the Federal Open Market Committee ("FOMC") decided not to change interest rates – moves which indicated that the worst may be over and that the recession might have bottomed out during the last quarter of 2001 – a lackluster economy persisted. The continuing economic malaise and even fears of possible deflation prompted the FOMC to make a thirteenth rate cut on June 25, 2003. The quarter point cut reduced the federal funds rate to 1.00 percent, the lowest level in forty-five years.

Even though some signs of economic strength, mainly attributed to consumer spending, began to crop up during the latter part of 2002 and into 2003, Chairman Greenspan appeared to be concerned with sharp declines in capital spending in the business sector.

During the latter part of 2003, the FOMC went on record as saying that it intended to leave interest rates low "for a considerable period." After its two-day meeting that ended on January 28, 2004, the FOMC announced "that with inflation 'quite low' and plenty of excess capacity in the economy, policy-makers 'can be patient in removing its policy accommodation.'[17]

[17] Wolk, Martin, "Fed holds interest rates steady," MSNBC, January 28, 2004.

Q. What actions has the Federal Reserve taken in terms of interest rates since the beginning of 2001?

A. As noted earlier, from January 2001 to June 2003 the Federal Reserve cut interest rates a total of thirteen times. During this period, the federal funds rate fell from 6.50 percent to 1.00 percent. The FOMC reversed this trend on June 29, 2004 and raised the federal funds rate 25 basis points to 1.25 percent. From June 29, 2004 to January 31, 2006, the FOMC raised the federal funds rate thirteen more times to a level of 4.50 percent.

The FOMC's January 31, 2006 meeting marked the final appearance of Alan Greenspan, who had presided over the rate setting body for a total of eighteen years. On that same day, Greenspan's successor, Ben Bernanke, the former chairman of the President's Council of Economic Advisers and a former Fed governor under Greenspan from 2002 to 2005, was confirmed by the U.S. Senate to be the new Federal Reserve chief.

As expected by Fed watchers, Chairman Bernanke picked up where his predecessor left off and increased the federal funds rate by 25 basis points during each of the next three FOMC meetings for a total of seventeen consecutive rate increases since June 2004, and raising the federal funds rate to a level of 5.25 percent. The Fed's rate increase campaign finally came to a halt at the FOMC meeting held on August 8, 2006, when the FOMC decided not to raise rates.

Q. What was the reaction in the financial community to the Fed's decision not to raise interest rates?

A. As in the past, banks followed the Fed's lead once again and held the prime rate to a level of 8.25 percent, or 300 basis points higher than the federal funds rate of 5.25 percent established on June 29, 2006.

Q. How did analysts view the Fed's actions between January 2001 and August 2006?

A. According to an article that appeared in the December 2, 2004 edition of The Wall Street Journal, the FOMC's decision to begin raising rates two years ago was viewed as a move to increase rates from emergency lows in order to avoid creating an inflation problem in the future as opposed to slowing down the strengthening economy.[18] In other words, the Fed was trying to head off inflation *before* it became a problem. During the period following the August 8, 2006 FOMC meeting, the Fed's decisions not to raise rates were viewed as a gamble that a slower U.S. economy would help to cap growing inflationary pressures.[19]

. . .

[18] McKinnon, John D. and Greg IP, "Fed Raises Rates by a Quarter Point," The Wall Street Journal, September 22, 2004.

[19] Ip, Greg, "Fed Holds Interest Rates Steady As Slowdown Outweighs Inflation," The Wall Street Journal Online Edition, August 8, 2006.

Q. Was the Fed attempting to engineer another "soft landing", as it did in the mid-nineties, by holding interest rates steady?

A. Yes, however, as pointed out in an August 2006 article in The Wall Street Journal by E.S. Browning, soft landings – like the one that the Fed managed to pull off during the 1994-95 time frame, in which a recession or a bear market were avoided – rarely happen[20]. Since it began increasing the federal funds rate in June 2004, the Fed had assured investors that it would increase rates at a "measured" pace. Many analysts and economists interpreted this language to mean that former Chairman Greenspan would be cautious in increasing interest rates too quickly in order to avoid what is considered to be one of the Fed's few blunders during Greenspan's tenure – a series of increases in 1994 that caught the financial markets by surprise after a long period of low rates. The rapid rise in rates contributed to the bankruptcy of Orange County, California and the Mexican peso crisis[21]. According to Mr. Browning, at the time that his article was published, the hope was that Chairman Bernanke would succeed in slowing the economy "just enough to prevent serious inflation, but not enough to choke off growth." In other words, "a 'Goldilocks economy,' in which growth is not too hot and not too cold."

[20] Browning, E.S, "Not Too Fast, Not Too Slow…," The Wall Street Journal Online Edition, August 21, 2006.

[21] Associated Press (AP), "Fed begins debating interest rates" USA Today, June 29, 2004.

Q. Was the Fed's attempt to engineer a soft landing successful during the period that followed the August 8, 2006 FOMC meeting?

A. It would appear so. Articles published in the mainstream financial press were generally upbeat on the economy during that period. An example of this is an article written by Nell Henderson that appeared in the January 30, 2007 edition of The Washington Post. According to Ms. Henderson, "a year into [Fed Chairman] Bernanke's tenure, the [economic] picture has turned considerably brighter. Inflation is falling; unemployment is low; wages are rising; and the economy, despite continued problems in housing, is growing at a brisk clip."[22]

Q. What has been the state of the economy since 2007?

A. Reports in the mainstream financial press during the majority of 2007 reflected the view that the U.S. economy was slowing as a result of a worsening situation in the housing market and higher oil prices. The overall outlook for the economy was one of only moderate growth at best. Also during this period the Fed's key measure of inflation began to exceed the rate setting body's comfort level.

On August 7, 2007, the FOMC decided not to increase or decrease the federal funds rate for the ninth straight time and left its target rate

[22] Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

unchanged at 5.25 percent.[23] At the time of the Fed's decision, analysts speculated that a rate cut over the next several months was unlikely given the Fed's concern that inflation would fail to moderate. However, during this same period, evidence of an even slower economy and a possible recession was beginning to surface. Within days of the Fed's decision to stand pat on rates, a borrowing crisis rooted in a deterioration of the market for subprime mortgages and securities linked to them, forced the Fed to inject $24 billion in funds (raised through open market operations) into the credit markets.[24] By Friday, August 17, 2007, after a turbulent week on Wall Street, the Fed made the decision to lower its discount rate (i.e. the rate charged on direct loans to banks) by 50 basis points, from 6.25 percent to 5.75 percent, and took steps to encourage banks to borrow from the Fed's discount window in order to provide liquidity to lenders. According to an article that appeared in the August 18, 2007 edition of The Wall Street Journal, [25] the Fed had used all of its tools to restore normalcy to the financial markets. If the markets failed to settle down, the Fed's only weapon left was to cut the Federal Funds rate – possibly before the next FOMC meeting scheduled on September 18, 2007.

[23] Ip, Greg, "Markets Gyrate As Fed Straddles Inflation, Growth" The Wall Street Journal, August 8, 2007

[24] Ip, Greg, "Fed Enters Market To Tamp Down Rate" The Wall Street Journal, August 9, 2007

[25] Ip, Greg, Robin Sidel and Randall Smith, "Fed Offers Banks Loans Amid Crises" The Wall Street Journal, August 9, 2007

Q. Did the Fed cut rates as a result of the subprime mortgage borrowing crises?

A. Yes. At its regularly scheduled meeting on September 18, 2007, the FOMC surprised the investment community and cut both the federal funds rate and the discount rate by 50 basis points (25 basis points more than what was anticipated). This brought the federal funds rate down to a level of 4.75 percent. The Fed's action was seen as an effort to curb the aforementioned slowdown in the economy. Over the course of the next four months, the FOMC reduced the Federal funds rate by a total 175 basis points to a level of 3.00 percent – mainly as a result of concerns that the economy was slipping into a recession. This included a 75 basis point reduction that occurred one week prior to the FOMC's meeting on January 29, 2008.

Q. What actions has the Fed taken in regard to interest rates since the beginning of 2008?

A. The Fed made two more rate cuts which included a 75 basis point reduction in the federal funds rate on March 18, 2008 and an additional 25 basis point reduction on April 30, 2008. The Fed's decision to cut rates was based on its belief that the slowing economy was a greater concern than the current rate of inflation (which the majority of FOMC members believed would moderate during the economic slowdown).[26] As a result of the Fed's actions, the federal funds rate was reduced to a level of 2.00 percent. From April 30, 2008 through September 16, 2008, the Fed took no further action on its key interest rate. However, the days before and after the Fed's September 16, 2008 meeting saw longstanding Wall Street firms such as Lehman Brothers, Merrill Lynch and AIG failing as a result of their subprime holdings. By the end of the week, the Bush administration had announced plans to deal with the deteriorating financial condition which had now become a worldwide crisis. The administrations actions included former Treasury Secretary Henry Paulson's request to Congress for $700 billion to buy distressed assets as part of a plan to halt what has been described as the worst financial crisis since the 1930's[27]. Amidst this turmoil, the Fed made the decision to cut the federal funds rate by another 50 basis points in a coordinated move with foreign central banks on October 8, 2008. This was followed by another 50 basis point cut during the regular FOMC meeting on October 29, 2008. At the time of this writing, the federal funds target rate now stands at 0.25 percent, the result of a 75 basis point cut announced on December 16, 2008. Over the course of 2009, the FOMC elected not to make any changes in the federal funds rate. During this same period of time, the Federal Reserve

[26] Ip, Greg, "Credit Worries Ease as Fed Cuts, Hints at More Relief" The Wall Street Journal, March 19, 2008

[27] Soloman, Deborah, Michael R. Crittenden and Damian Paletta, "U.S. Bailout Plan Calms Markets, But Struggle Looms Over Details" The Wall Street Journal, September 20, 2008

purchased over $1 trillion in mortgage-backed securities and U.S. Treasury instruments from banks in order to inject liquidity into the U.S. financial system. In testimony offered to the House Financial Services Committee on Wednesday, February 24, 2010, Chairman Bernanke stated that the Fed would continue to keep rates low over the next several months.[28] The Fed chief further stated that the Federal Reserve is actively looking at what tools to use once the economy will need higher interest rates. Of particular concern at this point in time is how the fed will drain the excess reserves that banks have accumulated, as a result of the aforementioned purchases of mortgage-backed securities and U.S. Treasuries, in order to avoid unwanted inflation.

Q. Putting this all into perspective, how have the Fed's actions since 2000 affected benchmark rates?

A. U.S. Treasury instruments are for the most part still at historically low levels. As can be seen on the first page of Attachment D, the previously mentioned federal discount rate (the rate charged to the Fed's member banks), currently stands at 0.75 percent from 0.50 percent in 2009 (one of the few rates that the fed has increased over the past year).

[28] Di Leo, Luca and Tom Barkley, "Bernanke: Low Rates Still Needed" The Wall Street Journal, February 24, 2010

Q. What has been the trend in other leading interest rates over the last year?

A. As of March 17, 2010, leading interest rates that include the 3-month, 6-month and 1-year treasury yields have dropped from their 2009 levels. Longer term yields including the 5-year, 10-year, 30-year constant maturity and 30-year Zero rates, have increased from levels that existed a year ago (Attachment D, Value Line Selection & Opinion page 3065). The prime rate has remained constant at 3.25 percent over the past year, as has the benchmark federal funds rate discussed above. A previous trend, described by former Chairman Greenspan as a "*conundrum*"[29], *in which* long-term rates fell as short-term rates increased, thus creating a somewhat inverted yield curve that existed as late as June 2007, is completely reversed and a more traditional yield curve (one where yields increase as maturity dates lengthen) presently exists (Attachment D). The 5-year Treasury yield, used in my CAPM analysis, has increased 79 basis points from 1.57 percent, in March 2009, to 2.36 percent as of March 17, 2010. As noted above, the 30-Year Treasury constant maturity rate increased from 3.42 percent over the past year to 4.56 percent. Still these current yields are considerably lower than corresponding yields that existed during the early nineties and at the beginning of the current decade (as can be seen on Schedule WAR-8).

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[29] Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005

Q. What is the current outlook for the economy?

A. Value Line's analysts are forecasting for moderate growth over the coming year. As I noted earlier in my testimony Value line's analysts had this to say in the March 26, 2010 edition of Value Line's Selection and Opinion publication:

> **Growth probably will moderate significantly in the current quarter, following a late 2009 surge.** In all, we estimate that the economy — which grew by 5.9% during the final three months last year — will gain 2.5%-3.0% over the first three months of 2010, with increases in consumer spending and business equipment offsetting further weakness in homebuilding.

Value Line's analysts went on to explain

> **Meanwhile, the likely sequential deceleration in growth this quarter requires an explanation.** That is because much of the 5.9% gain in fourth-quarter (2009) gross domestic product growth was inventory driven—as that period saw a sharp lessening in inventory drawdowns. Further help on this front is probable in 2010, as manufacturers add to their depleted stockpiles (thus boosting production and GDP in the process), albeit at a slower rate. Meanwhile, consumers, although constrained by tight credit conditions and wealth considerations (reflecting lower home prices), may still boost spending modestly in 2010. We also expect business investment to rise in 2010, possibly helping GDP to gain close to 3% this year.

Value Line's analysts also stated

> **Some trouble spots remain.** For openers, the housing market is still under duress, with foreclosures and repossessions unlikely to ease much anytime soon, while home prices may do no better than tread water for some time. Homebuilding is also near the recession lows. Then, there is the employment outlook. Here, gains are likely this year, although, for now, non-farm payrolls are still falling.

Value Line's analysts went on to say

> **We expect a moderate business recovery for the most part.** As noted, we think GDP will rise by close to 3% this year, with a similar gain likely in 2011. A so called V-shaped recovery is

> unlikely, given tight credit, sluggish spending by consumers, and weak housing demand.

Q. How are water utilities faring in the current economic environment?

A. Although, as always, there are concerns regarding long-term infrastructure requirements, water utilities are being viewed as they normally are during better economic times according to Value Line analyst Andre J. Costanza. In the January 22, 2010 quarterly update on the water utility industry Mr. Costanza stated the following:

> There has not been any major developments or changes to water utility fundamentals of late, suggesting that the weakness is largely a byproduct of improving investor confidence and a brighter outlook for the broader market. But that's not to say that there haven't been some lingering issues at play too. Water infrastructures are aging and in many cases require considerable maintenance and capital investment in order to meet increasingly stringent requirements. The rising costs of doing business are likely to offset most of the benefits stemming form more favorable regulatory backing that has become apparent (see below), limiting shareholder gains for both the near and long-term. It should be noted that these stocks are typically bottom-dwellers in times of prosperity and renewed confidence, with their perceived safety historically faring better in times of economic uncertainty.

Q. After weighing the economic information that you've just discussed, do you believe that the 9.00 percent cost of equity capital that you have estimated is reasonable for the Company?

A. I believe that my recommended 9.00 percent cost of equity will provide the Company with a reasonable rate of return on invested capital when economic data on interest rates (that are low by historical standards), the current situation in housing construction, and the Fed's ability to keep inflation in check are all taken into consideration. As I noted earlier, the Hope decision determined that a utility is entitled to earn a rate of return that is commensurate with the returns it would make on other investments with comparable risk. I believe that my cost of equity analysis, which is on the high side of the range of results I obtained from both the DCF and CAPM models, has produced such a return.

CAPITAL STRUCTURE AND COST OF DEBT

Q. Please describe the Company-proposed capital structure.

A. The Company-proposed capital structure is comprised of 78.92 percent common equity and 21.08 percent long-term debt.

Q. How does the Company-proposed capital structure compare with the capital structures of the water and gas utilities that comprise your samples?

A. The Company-proposed capital structure, comprised of 78.92 percent equity capital is clearly heavier in equity than the capital structures of the water and gas utilities in my samples and would be perceived by investors as having lower risk overall. The lower level of debt in the Company's capital structure would indicate lower financial risk and would justify a downward adjustment to the cost of common equity derived from my sample companies that had average capital structures of approximately 49.00 percent common equity and 51 percent debt in the case of water, and approximately 54.00 percent equity and 46.00 percent debt in the case of natural gas.

Q. Why have you decided not to recommend a hypothetical capital structure in this round of testimony given the fact that the Company-proposed capital structure contains less debt than the utilities in your sample?

A. In recent years I have attempted, for the most part, to recommend hypothetical capital structures for utilities that have extreme levels of debt or equity in their capital structures. In the case of Liberty Water systems I have recommended hypothetical capital structures in cases where imprudent capital structures comprised of 100 percent equity were being proposed. While a higher level of lower cost debt would be desirable in this case, I believe that the fact that the Company-proposed consolidated capital structure, which is comprised of 21.08 percent long-term debt, eliminates the need for a hypothetical capital structure. My capital structure recommendations may change in later testimony when the stand alone systems are examined.

Q. Did you make any direct downward adjustment to your recommended cost of common equity that takes into consideration the higher level of equity contained in the Company-proposed capital structure?

A. No. While a good argument could be made for such an adjustment, I believe my recommended 9.00 percent cost of equity would cover any investor concerns regarding unique business risk associated with the consolidation of BVWC, NSWC and SSWC.

Q. What cost of long-term debt are you recommending?

A. I am recommending that the Commission adopt the Company-proposed cost of debt of 6.27 percent, which is an average of the weighted costs of BVWC's various loans agreements.

Q. How does the Company's proposed weighted cost of capital compare with your recommendation?

A. As explained earlier, the Company has proposed a weighted average cost of capital of 11.19 percent which is 277 basis points higher than the 8.42 percent weighted cost that I am recommending.

COMMENTS ON THE COMPANY-PROPOSED COST OF EQUITY CAPITAL

Q. How does your recommended cost of equity capital compare with the cost of equity capital proposed by the Company?

A. The Company's cost of capital witness, Mr. Bourassa, is recommending a cost of common equity of 12.50 percent. His 12.50 percent cost of equity capital is 350 basis points higher than the 9.00 percent cost of equity capital that I have calculated.

Q. What methods did Mr. Bourassa use to arrive at his proposed cost of common equity for the Company?

A. Mr. Bourassa used both the DCF and CAPM methods. His DCF analysis relies on the same constant growth version of the DCF model that I have used with two different growth estimates: a past and future growth estimate which produces an 11.2 percent indicated cost of equity, and a future growth estimate which produces a 13.00 percent indicated cost of equity. Mr. Bourassa's CAPM analysis also uses the same model that I have used but he obtains two different results: one obtained by using an historical risk premium and the other by using a current market risk premium. His CAPM analysis produces results of 10.1 percent using an historical risk premium and 21.0 percent using a current market risk premium. His average CAPM result is 15.6 percent.

Q. What are the main reasons for the difference in the results that you obtained from your DCF analysis and the results that Mr. Bourassa obtained from his DCF analysis using the constant growth model?

A. Mr. Bourassa conducted his analysis prior to August 31, 2009 and consequently much of the data that he used in his analysis is now seven months old. This can be seen in a price comparison of three of the water company stocks that we both used in our samples: The difference between the average adjusted closing stock prices used in my DCF model and spot prices used by Mr. Bourassa in his DCF models are as follows:

	Rigsby	Bourassa	Difference
AWR	$33.21	$33.95	- $0.74
CWT	$36.51	$38.35	- $1.84
WTR	$17.00	$17.47	- $0.47

Q. What are the differences between your constant growth DCF results and Mr. Bourassa's constant growth models?

A. As I stated earlier, Mr. Bourassa did not rely on a sample of natural gas utilities so my comparison is limited to our respective water utility samples. Much of the difference between our results is attributable to the utilities that were included in our samples. Mr. Bourassa's sample included utilities that I excluded because Value Line does not provide projections on them which I use to develop my growth estimates for the "g" component of the DCF model. His average annual dividend yields of 3.63 percent to 3.69 percent are 37 to 43 basis points higher than my average dividend yield of 3.26 percent. The current dividend yield of the three utilities that our samples have in common (based on my 8-week average adjusted closing prices listed above) would be 3.07 or 19 basis points lower than my 3.26 percent relying on Mr. Bourassa's method for calculating the current dividend yield. In regard to our growth (i.e. "g" component of the DCF model) estimates, Mr. Bourassa's estimates of 7.61 percent to 9.26 percent are 94 to 259 basis points higher than my average growth estimate of 6.67 percent. However, Mr. Bourassa believes that historical DPS growth rates depress the growth estimates used in the DCF model.

Q. Do you agree with Mr. Bourassa's logic regarding historical DPS growth rates in the estimation of a growth rate for the DCF model?

A. No, I do not. Mr. Bourassa states on page 30 of his direct testimony that while his average DCF result relying on DPS historical growth of 6.90 percent is higher than the current yields of investment grade bonds, the growth results of four of the utilities in his sample were lower than the yields on investment grade bonds. A review of my Attachment D will show that, as of March 17, 2009, Mr. Bourassa's 6.90 percent DCF result relying on historical DPS growth is 150 to 56 basis points higher than the yields of A-rated corporate bonds and Baa/BBB rated utility bonds which ranged from 5.40 percent to 6.34 percent. Essentially Mr. Bourassa is making the argument that only one element of growth, in this case DPS growth, should be selectively ignored if it depresses an overall growth rate that also includes EPS and BVPS.

Q. Do you agree with Mr. Bourassa?

A. No. I believe that all elements of growth should be considered in calculating a growth component for the DCF. This is what I've done to arrive at my DCF growth estimates.

Q. What are the main differences between your CAPM results and Mr. Bourassa's CAPM results?

A. The differences between our CAPM results is attributable to his selection of forecasted long-term U.S. Treasury instrument yields used as inputs for the risk-free rate of return and the time period that has expired since Mr. Bourassa filed his direct testimony. Mr. Bourassa's average beta of 0.82 has also fallen since his testimony was filed, and his current market risk premium figure of 19.8 percent is simply not realistic when compared with the market risk premiums, ranging from 4.20 percent to 6.10 percent, that I obtained from Morningstar's 2009 SBBI Yearbook.

Q. Please explain the differences in your risk free rates of return.

A. I relied on a 2.36 percent yield on a 5-year treasury rate whereas Mr. Bourassa relied on a 4.80 percent average of forecasted 30-year Treasury yields as opposed to my use of a 5-year Treasury yield.

Q. Do you agree with Mr. Bourassa's reliance on forecasted yields of long-term Treasury instruments?

A. No. I believe that a shorter term instrument is more appropriate when one takes into account that utilities generally file for new rates every three to five years. His 4.80 percent risk-free rate is based on analysts' estimates forecasts for 2011 and 2012 and is 24 basis points higher than the current yield on a 30-year Treasury bond which I believe is a better indicator of future yields on that instrument.

Q. What is the current average beta for the water utilities included in Mr. Bourassa's sample?

A. The current average beta for the water utilities included in Mr. Bourassa's sample is 0.79 as opposed to the 0.82 used in his CAPM analysis and the 0.73 used in my CAPM analysis using a sample of water utilities. Since Mr. Bourassa's direct testimony was filed in August 2009, the betas for California Water Service Group, Connecticut Water Service, Inc. and Middlesex Water Company dropped from 0.80, 0.85 and 1.00 to 0.75, 0.80 and 0.95 respectively, indicating lower risk, in terms of beta, for these companies.

Q. What are the differences in the market risk premiums that you used in your CAPM analyses?

A. As I explained earlier in my testimony, my market risk premiums are the 6.10 percent arithmetic and 4.20 percent geometric means of the differences between the return on the broader stock market and the yields of intermediate term U.S. Treasury instruments over the 1926 – 2008 time frame (obtained from Morningstar's 2009 SBBI Yearbook). Mr. Bourassa relied on a 6.5 percent historical risk premium (which also relied on Morningstar data) and a 19.8 percent current market risk premium, which was computed using the DCF model and data on 1,700 stocks followed by Value Line.

Q. Do you agree with Mr. Bourassa's 19.8 percent current market risk premium?

A. No. Mr. Bourassa's 19.8 percent market risk premium is clearly excessive and only represents a snapshot in time. He calculates it by using a DCF model that relies on stock price appreciation for the growth component (i.e. "g"). This results in a 24-month average expected return of 24.01 percent. His 19.8 percent risk premium is the difference between the 24.01 percent DCF result and the 4.26 percent 24-month average of the yields on a 30-year Treasury instrument. Mr. Bourassa's current market risk premium is not even realistic considering the historic market risk premiums that take into consideration the full spectrum of economic conditions that have occurred since 1926. His current market risk premium also flies in the face of recent empirical research that pegs the market risk premium at approximately 4.00 percent.

Q. How did Mr. Bourassa arrive at his final 12.50 percent cost of common equity for the Company?

A. Mr. Bourassa's proposed 12.50 percent cost of common equity represents his own judgment and relies on the results of the midpoints of the ranges of estimates he obtained from his DCF and CAPM models.

Q. Is there any merit in the rationale used by Mr. Bourassa in regard to the size arguments stated in his direct testimony?

A. No. As I stated earlier in my testimony, Liberty Water, the entity that owns BVWC, NSWC and SSWC, is a wholly owned subsidiary of Algonquin Power Income Fund, a large publicly traded corporation that has direct access to the capital markets. In addition to this, to the best of my knowledge, the Commission has never granted a higher cost of common equity based on company size.

Q. Does your cost of capital recommendation take into consideration any perceived business risks that the Company might face?

A. Yes. As I stated earlier in my testimony, I believe that the amount of equity contained in my recommended capital structure, which is higher than the percentage of equity contained in my utility samples, and the fact that I have not made any downward adjustment to my recommended 9.00 percent cost of equity mitigates any perceived business risk that investors might believe the Company faces.

Q. Does your silence on any of the issues, matters or findings addressed in the testimony of Mr. Bourassa or any other witness for BVWC, NSWC or SSWC constitute your acceptance of their positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your testimony on BVWC, NSWC and SSWC?

A. Yes, it does.

Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 &1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
Phoenix, Arizona
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

Utility Company	Docket No.	Type of Proceeding
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	WS-01303A-06-0491	Rate Increase
UNS Electric, Inc.	E-04204A-06-0783	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona Public Service Company	E-01345A-08-0172	Rate Increase
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase
Arizona-American Water Company	W-01303A-08-0227 et al.	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
UNS Gas, Inc.	G-04204A-08-0571	Rate Increase
Arizona Water Company	W-01445A-08-0440	Rate Increase
Far West Water & Sewer Company	WS-03478A-08-0608	Interim Rate Increase
Black Mountain Sewer Corporation	SW-02361A-08-0609	Rate Increase
Global Utilities	SW-02445A-09-0077 et al.	Rate Increase
Litchfield Park Service Company	SW-01428A-09-0104 et al.	Rate Increase
UNS Electric, Inc.	E-04204A-09-0206	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-08-09-0257	Rate Increase
Arizona-American Water Company	W-01303A-09-0343	Rate Increase

ATTACHMENT A

WATER UTILITY INDUSTRY

INDUSTRY TIMELINESS: 74 (of 98)

The Water Utility Industry has not been the best place to reside in recent months. Indeed, the stocks in the group have shown little, if any, share-price appreciation since our October review. Some have even experienced deterioration, as the market continued to reveal signs of awaking from its earlier slumber and investor sentiment swung to more aggressive areas in an attempt to be at the forefront of a potential economic revival.

There has not been any major developments or changes to water utility fundamentals of late, suggesting that the weakness is largely a byproduct of improving investor confidence and a brighter outlook for the broader market. But that's not to say that there haven't been some lingering issues at play too. Water infrastructures are aging and in many cases require considerable maintenance and capital investment in order to meet increasingly stringent requirements. The rising costs of doing business are likely to offset most of the benefits stemming form more favorable regulatory backing that has become apparent (see below), limiting shareholder gains for both the near and long-term. It should be noted that these stocks are typically bottom-dwellers in times of prosperity and renewed confidence, with their perceived safety historically faring better in times of economic uncertainty.

Undeniable Demand

It's a fact of life, water is one of the biggest necessities to human survival. And, although more than two thirds of the world is made up of the liquid, providers are needed to help safely and effectively deliver water to hundreds of millions of Americans everyday.

Given the dependency on water, each state has a regulatory body in place in order to oversee water utilities and maintain a balance of power between them and customers. However, many of these authorities, responsible for reviewing and ruling on general rate requests made by utilities to help recover costs, long sided with the public, creating a lop-sided and difficult backdrop for providers. That said, more recently most have had a change of heart and have been handing down more business friendly rulings on general rates in far more timely fashion. The recent implementation of accounting mechanisms originally outlined in the Water Action Plan speaks volumes to such and should only help to drive more predictable and improved results in the future.

Pressures to Keep Up

But not everything is as bright as the improving regulatory environment. In order to meet the demands of the public, providers employ millions of feet of pipes and a plethora of wells to say the least. Many of these systems were built decades ago and over the course of time have begun to decay and require significant maintenance or even complete overhauls. This coupled with the growing threat of bioterrorism will likely continue driving maintenance and infrastructure costs through the roof and forcing most in this space to seek help on the financing front because of inadequate cash levels. Meanwhile, many smaller operations, unable to survive, are closing up shop, presenting opportunities for the larger players with the flexibility to increase their customer base at relatively lower start-up costs. *Aqua America* is a prime example and thus sports some of the best long-term growth prospects. M&A activity is likely to remain hot, as the costs of doing business are expected to climb into the hundreds of millions by the next decade.

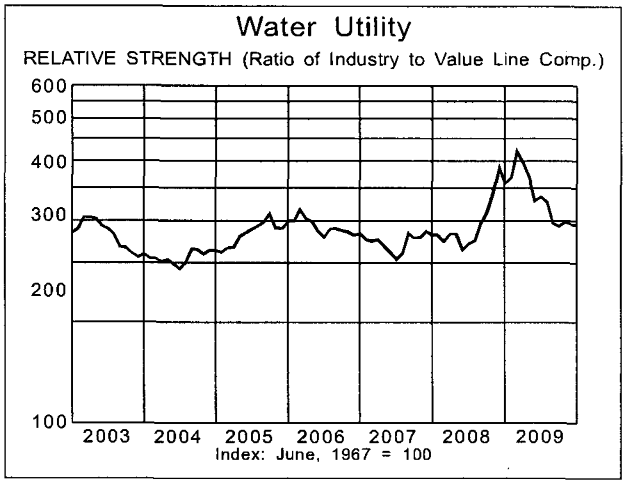
Conclusion

At this juncture, this industry does not cater to the investment demands of most. Just about every stock in the group lacks appreciation potential, whether it be for the coming six to 12 months or the 3- to 5-year pull. The aforementioned *Aqua America*, along with *SouthWest Water Company* and *American Water Works*, top our list for growth potential, but each pales in comparison to the alternatives offered outside the industry. Although the steady stream of income of some in this group may well intrigue investors seeking total return, the risk profiles of each of these stocks are higher than one might think because of a dependency on M&A's, finance concerns, and a lack of track record. Meanwhile, those with a more conservative bent and an affinity for income can do better by looking elsewhere, specifically the Electric Utility segment. As always, we advise potential investors to thumb through reports of each individual stock before making a commitment.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2005	2006	2007	2008	2009	2010		12-14
1256.9	3454.1	3702.5	3913.8	**4150**	**4455**	Revenues ($mill)	**5425**
148.2	d5.8	d183.0	352.7	**405**	**470**	Net Profit ($mill)	**625**
40.5%	NMF	NMF	37.0%	**38.0%**	**38.0%**	Income Tax Rate	**39.0%**
1.1%	NMF	NMF	6.5%	**8.0%**	**10.0%**	AFUDC % to Net Profit	**15.0%**
50.4%	54.0%	51.0%	52.6%	**55.0%**	**53.0%**	Long-Term Debt Ratio	**50.0%**
49.5%	45.9%	49.0%	47.4%	**45.0%**	**47.0%**	Common Equity Ratio	**50.0%**
3053.8	12113.9	12985.9	12629.1	**13365**	**13800**	Total Capital ($mill)	**15725**
4200.7	13308.3	14315.2	15356.1	**16115**	**16950**	Net Plant ($mill)	**19050**
6.3%	1.6%	.2%	4.3%	**5.0%**	**5.5%**	Return on Total Cap'l	**6.0%**
9.8%	NMF	NMF	5.9%	**6.5%**	**7.5%**	Return on Shr. Equity	**8.0%**
9.8%	NMF	NMF	5.9%	**6.5%**	**7.5%**	Return on Com Equity	**8.0%**
3.7%	NMF	NMF	2.9%	**3.0%**	**3.5%**	Retained to Com Eq	**4.0%**
62%	NMF	NMF	51%	**63%**	**60%**	All Div'ds to Net Prof	**55%**
29.4	NMF	NMF	21.0	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	**20.0**
1.57	NMF	NMF	1.26			Relative P/E Ratio	**1.35**
2.1%	2.0%	2.3%	2.4%			Avg Ann'l Div'd Yield	**2.5%**



AMER. STATES WATER NYSE-AWR

RECENT PRICE	P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD
34.75	18.5 (Trailing: 18.6 Median: 22.0)	1.07	3.0%

VALUE LINE

TIMELINESS	3 Lowered 6/5/09
SAFETY	3 New 2/4/00
TECHNICAL	3 Raised 12/4/09
BETA .80 (1.00 = Market)	

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	19.5	26.5	25.3	26.4	29.0	29.0	26.8	34.6	43.8	46.1	42.0	38.8
Low:	14.1	14.8	16.7	19.0	20.3	21.6	20.8	24.3	30.3	33.6	27.0	29.8

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

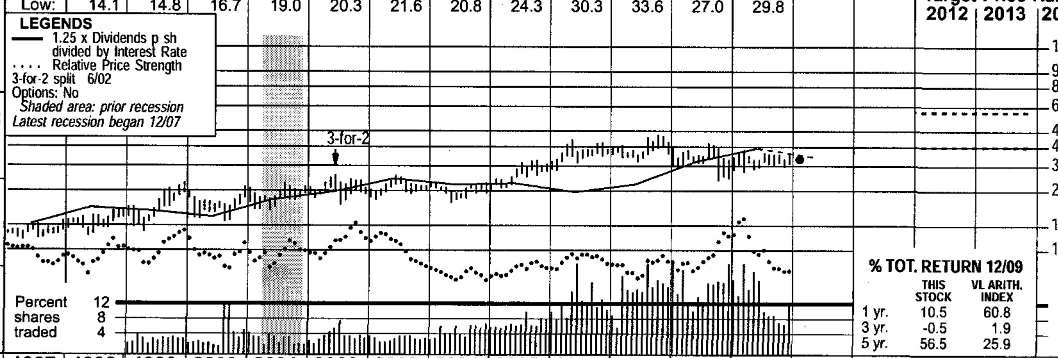
	Price	Gain	Ann'l Total Return
High	60	(+75%)	17%
Low	40	(+15%)	6%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	1	0	0	0	0	1	0	0

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	55	66	54
to Sell	66	53	53
Hld's(000)	9283	10578	10847



% TOT. RETURN 12/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	10.5	60.8
3 yr.	-0.5	1.9
5 yr.	56.5	25.9

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
9.27	10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	15.76	17.49	18.42	19.60	20.55	Revenues per sh	21.75
1.67	1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	2.89	3.31	3.37	3.65	3.90	"Cash Flow" per sh	4.60
1.11	.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.32	1.33	1.62	1.55	1.85	2.00	Earnings per sh A	2.60
.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.96	1.00	1.01	1.05	Div'd Decl'd per sh B■	1.22
1.90	2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	3.91	2.89	4.45	4.05	4.25	Cap'l Spending per sh	5.00
9.95	10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	16.64	17.53	17.95	19.60	20.00	Book Value per sh	22.00
11.71	11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	17.05	17.23	17.30	18.60	19.00	Common Shs Outst'g C	20.00
13.4	12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	18.54		Avg Ann'l P/E Ratio	19.0
.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.37	1.22		Relative P/E Ratio	1.25
5.3%	6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%		Avg Ann'l Div'd Yield	2.4%

CAPITAL STRUCTURE as of 9/30/09
Total Debt $327.5 mill. Due in 5 Yrs $25.0 mill.
LT Debt $306.3 mill. LT Interest $23.5 mill.
(LT interest earned: 3.8x: total interest coverage: 3.5x) (46% of Cap'l)

Leases, Uncapitalized: Annual rentals $2.9 mill.

Pension Assets-12/08 $54.2 mill. **Oblig.** $94.5 mill.

Pfd Stock None.

Common Stock 18,512,032 shs. as of 11/3/09

MARKET CAP: $650 million (Small Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
173.4	184.0	197.5	209.2	212.7	228.0	236.2	268.6	301.4	318.7	365	390	Revenues ($mill)	450
16.1	18.0	20.4	20.3	11.9	16.5	22.5	23.1	28.0	26.8	35.0	39.0	Net Profit ($mill)	52.0
46.0%	45.7%	43.0%	38.9%	43.5%	37.4%	47.0%	40.5%	42.6%	37.8%	38.5%	38.5%	Income Tax Rate	40.0%
--	--	--	--	--	--	--	12.2%	8.5%	6.9%	5.0%	5.0%	AFUDC % to Net Profit	5.0%
51.0%	47.5%	54.9%	52.0%	52.0%	47.7%	50.4%	48.6%	46.9%	46.2%	46.0%	44.5%	Long-Term Debt Ratio	46.5%
48.4%	51.9%	44.7%	48.0%	48.0%	52.3%	49.6%	51.4%	53.1%	53.8%	54.0%	55.5%	Common Equity Ratio	53.5%
328.2	371.1	447.6	444.4	442.3	480.4	532.5	551.6	569.4	577.0	675	705	Total Capital ($mill)	825
449.6	509.1	539.8	563.3	602.3	664.2	713.2	750.6	776.4	825.3	870	920	Net Plant ($mill)	1025
6.6%	6.4%	6.1%	6.5%	4.6%	5.2%	5.4%	6.0%	6.7%	6.4%	7.0%	7.5%	Return on Total Cap'l	8.5%
10.0%	9.2%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	9.5%	10.5%	Return on Shr. Equity	12.0%
10.1%	9.3%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	9.5%	10.5%	Return on Com Equity	12.0%
2.9%	3.0%	3.6%	3.3%	NMF	1.0%	2.8%	2.7%	3.9%	3.1%	4.5%	5.0%	Retained to Com Eq	6.5%
72%	68%	65%	65%	113%	84%	67%	67%	58%	64%	54%	53%	All Div'ds to Net Prof	47%

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	1.7	7.3	7.4
Other	61.4	83.3	92.3
Current Assets	63.1	90.6	99.7
Accts Payable	29.1	36.6	37.4
Debt Due	37.8	75.3	21.2
Other	27.4	25.5	40.4
Current Liab.	94.3	137.4	99.0
Fix. Chg. Cov.	314%	293%	352%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	4.5%	5.0%	4.0%
"Cash Flow"	5.5%	6.0%	6.5%
Earnings	3.5%	5.5%	9.5%
Dividends	1.5%	2.0%	4.5%
Book Value	4.5%	5.0%	4.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	64.3	63.0	75.0	66.3	268.6
2007	72.3	79.3	75.8	74.0	301.4
2008	68.9	80.3	85.3	84.2	318.7
2009	79.6	93.6	101.8	90.0	365
2010	85.0	100	108	97.0	390

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	.35	.36	.32	.30	1.33
2007	.40	.42	.44	.35	1.62
2008	.30	.53	.26	.43	1.55
2009	.28	.64	.52	.41	1.85
2010	.30	.65	.58	.47	2.00

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.225	.225	.225	.235	.91
2007	.235	.235	.235	.250	.96
2008	.250	.250	.250	.250	1.00
2009	.250	.250	.250	.260	1.01
2010					

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00). Has roughly 675 employees. Officers & directors own 2.5% of common stock (4/09 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Inc: CA. Addr.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tele.: 909-394-3600. Internet: www.aswater.com.

American States Water posted impressive third-quarter growth. Indeed, the water utility reported earnings of $0.52 a share, as revenues advanced 17%, to a record $101 million.

Expectations should be tempered a bit, however. Last year's third-quarter figures were relatively weak. The December-period comparisons are far more formidable. Plus, although the top line is likely to continue being the beneficiary of favorable general rate case rulings from the California Public Utilities Commission, operating expenses look to be on the rise, as evidenced by the most recent double-digit increase. Already decaying infrastructures are only growing older and requiring more investment. Much in that vein, we anticipate that the company had trouble meeting last year's share-net total in the fourth quarter, despite a healthy high single-digit top-line advance. For many of the same reasons, bottom-line growth for full-year 2010, though healthy, will likely pale in comparison to the levels witnessed in 2009.

The company's balance sheet is not exactly seductive. In order to meet the growing infrastructure requirements mentioned above, the cash-strapped entity will have to continue to seek outside financing, with debt and share offerings likely becoming commonplace. The higher interest rate and share count associated with these transactions will limit the benefits of the expansion of the nonregulated business.

These shares are not too intriguing at this juncture. Share-price momentum has tapered off in the months following our October review and is likely to remain relatively stagnant over the coming six to 12 months as the emergence from the recession continues to gain steam and investors regain confidence and take a more aggressive stance. The longer-term picture is not much better, with burgeoning financing costs curbing 3- to 5-year shareholder gains. Although risk-averse investors may be intrigued by the issue's income component (in a much anticipated move the board recently raised the quarterly dividend by 4% to $0.26 a share), it should be noted that there are a number of better income sources, particularly in the utility genre, to choose from.

Andre J. Costanza *January 22, 2010*

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 14¢; '05, 25¢; '06, 6¢; '08, (27¢). Next earnings report due late February. May not add due to rounding.

(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.

(C) In millions, adjusted for split.

Company's Financial Strength	B++
Stock's Price Stability	80
Price Growth Persistence	70
Earnings Predictability	70

CALIFORNIA WATER NYSE-CWT

RECENT PRICE **36.83** | P/E RATIO **18.4** (Trailing: 18.5 / Median: 22.0) | RELATIVE P/E RATIO **1.06** | DIV'D YLD **3.2%** | VALUE LINE

TIMELINESS 4 Lowered 11/6/09
SAFETY 3 Lowered 7/27/07
TECHNICAL 3 Lowered 12/25/09
BETA .75 (1.00 = Market)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	33.8	32.0	31.4	28.6	26.9	31.4	37.9	42.1	45.8	45.4	46.6	48.3
Low:	20.8	22.6	21.5	22.9	20.5	23.7	26.1	31.2	32.8	34.2	27.7	33.5

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

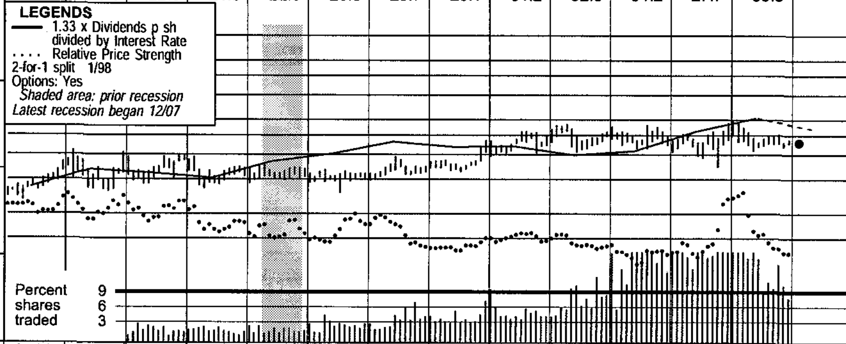
	Price	Gain	Ann'l Total Return
High	60	(+65%)	15%
Low	40	(+10%)	5%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	83	76	56
to Sell	81	85	75
Hld's(000)	10000	10018	9635



% TOT. RETURN 12/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-18.2	60.8
3 yr.	-0.7	1.9
5 yr.	13.2	25.9

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
13.34	12.59	13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	17.44	16.20	17.76	19.80	21.35	22.10	Revenues per sh	23.90
2.25	2.02	2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.83	3.03	2.71	3.12	3.72	4.05	4.25	"Cash Flow" per sh	4.80
1.35	1.22	1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.46	1.47	1.34	1.50	1.90	1.99	2.10	Earnings per sh A	2.60
.96	.99	1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	1.14	1.15	1.16	1.17	1.18	1.19	Div'd Decl'd per sh B ■	1.25
2.53	2.26	2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.73	4.01	4.28	3.68	4.82	5.20	5.25	Cap'l Spending per sh	5.25
10.90	11.56	11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.66	15.79	18.15	18.50	19.44	20.00	19.75	Book Value per sh C	21.30
11.38	12.49	12.54	12.62	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.37	18.39	20.66	20.67	20.72	21.00	21.25	Common Shs Outst'g D	23.00
13.6	14.1	13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	26.1	19.8	19.3		Avg Ann'l P/E Ratio	19.0
.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.39	1.20	1.26		Relative P/E Ratio	1.25
5.2%	5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	3.0%	3.1%	3.1%		Avg Ann'l Div'd Yield	2.5%
						206.4	244.8	246.8	263.2	277.1	315.6	320.7	334.7	367.1	410.3	448	470	Revenues ($mill) E	550
						19.9	20.0	14.4	19.1	19.4	26.0	27.2	25.6	31.2	39.8	42.0	45.0	Net Profit ($mill)	60.0
						37.9%	42.3%	39.4%	39.7%	39.9%	39.6%	42.4%	37.4%	39.9%	37.7%	40.0%	39.0%	Income Tax Rate	39.0%
						--	--	--	--	10.3%	3.2%	3.3%	10.6%	8.3%	8.6%	8.5%	10.0%	AFUDC % to Net Profit	10.0%
						46.9%	48.9%	50.3%	55.3%	50.2%	48.6%	48.3%	43.5%	42.9%	41.6%	47.0%	46.5%	Long-Term Debt Ratio	48.5%
						52.0%	50.2%	48.8%	44.0%	49.1%	50.8%	51.1%	55.9%	56.6%	58.4%	53.0%	53.5%	Common Equity Ratio	51.5%
						333.8	388.8	402.7	453.1	498.4	565.9	568.1	670.1	674.9	690.4	795	805	Total Capital ($mill)	950
						515.4	582.0	624.3	697.0	759.5	800.3	862.7	941.5	1010.2	1112.4	1175	1240	Net Plant ($mill)	1425
						7.8%	6.8%	5.3%	5.9%	5.6%	6.1%	6.3%	5.2%	5.9%	7.1%	7.0%	7.0%	Return on Total Cap'l	8.0%
						11.2%	10.0%	7.2%	9.4%	7.8%	8.9%	9.3%	6.8%	8.1%	9.9%	10.0%	10.5%	Return on Shr. Equity	12.0%
						11.4%	10.1%	7.2%	9.5%	7.9%	9.0%	9.3%	6.8%	8.1%	9.9%	10.0%	10.5%	Return on Com Equity	12.0%
						3.5%	1.8%	NMF	1.0%	.7%	2.1%	2.1%	1.0%	1.8%	3.8%	4.0%	5.0%	Retained to Com Eq	6.5%
						70%	82%	119%	90%	91%	77%	78%	86%	77%	61%	59%	56%	All Div'ds to Net Prof	48%

CAPITAL STRUCTURE as of 9/30/09
Total Debt $397.9 mill. **Due in 5 Yrs** $40.0 mill.
LT Debt $373.5 mill. **LT Interest** $25.0 mill.

(LT interest earned: 7.8x; total int. cov.: 6.6x)

Pension Assets-12/08 $66.9 mill. **Oblig.** $192.9 mill.

Pfd Stock None

Common Stock 20,744,952 shs. as of 11/2/09

MARKET CAP: $775 million (Small Cap)

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	6.7	13.9	47.6
Other	53.3	65.9	92.8
Current Assets	60.0	79.8	140.4
Accts Payable	36.7	45.1	54.4
Debt Due	2.7	42.8	24.4
Other	30.3	35.3	52.0
Current Liab.	69.7	123.2	130.8
Fix. Chg. Cov.	333%	398%	430%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	2.0%	1.5%	5.0%
"Cash Flow"	2.0%	5.5%	7.0%
Earnings	--	7.0%	8.5%
Dividends	1.0%	0.5%	1.5%
Book Value	4.0%	6.5%	2.0%

Cal-endar	QUARTERLY REVENUES ($ mill.)E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	65.2	81.1	107.8	80.6	334.7
2007	71.6	95.8	113.8	85.9	367.1
2008	72.9	105.6	131.7	100.1	410.3
2009	86.7	116.7	139.2	105.4	448
2010	91.0	122	146	111	470

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.04	.31	.68	.31	1.34
2007	.07	.37	.67	.39	1.50
2008	.01	.48	1.06	.35	1.90
2009	.12	.58	.94	.35	1.99
2010	.11	.60	1.00	.39	2.10

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.2875	.2875	.2875	.2875	1.15
2007	.290	.290	.290	.290	1.16
2008	.293	.293	.293	.293	1.17
2009	.295	.295	.295	.295	1.18
2010					

BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 463,600 customers in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '08: residential, 69%; business, 18%; public authorities, 5%; industrial, 5%; other, 3%. '08 reported depreciation rate: 2.4%. Has roughly 929 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson (4/09 Proxy). Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwatergroup.com.

Improvements on the regulatory front augur well for California Water Service Group's top line. Indeed, earlier rate increases handed down by the California Public Utilities Commission (CPUC) enabled the water utility to post record-high revenues of $139.2 million in the third quarter, a 6% improvement from the year before. We look for similar growth in the fourth quarter and for full-year 2010. Meanwhile, the company filed its 2009 general rate case during the period, seeking $71 million in 2011 with increases of nearly $25 million in 2012 and 2013. It was CWT's first consolidated request, covering all 24 districts, and a ruling may well take 18 months to be made. We expect a relatively favorable outcome given the CPUC's more recent disposition.

However, operating costs appear to be on the rise, too. Despite the top-line benefits mentioned above, share earnings fell 11% in the September period and came in a dime below our estimate. Operating expenses swelled 10%, as aging infrastructures required greater maintenance, and the increased demand drove up distribution costs. We suspect that these trends persisted in the fourth quarter and will only intensify going forward. As a result, we've tempered our expectations, estimating that CWT barely broke even in the final quarter of 2009 and that earnings growth will *not* be anything to write home about for full-year 2010.

The stock has fallen a notch for Timeliness and is now ranked 4 (Below Average). Recent share-price declines, coupled with the tough outlook, make this an unattractive selection for the coming six to 12 months.

Its 3- to 5-year appeal is better, but still lacking in our opinion. CWT does not have the finances on hand to meet the rising infrastructure costs that are likely to amount over the next couple of years. The share and/or debt offerings that will be required to help improve the balance sheet will come at a price, with the higher share count and interest rate expenses limiting potential shareholder gains. Although the dividend yield looks healthy at first blush, those seeking an income vehicle have better options available, particularly on a risk-adjusted basis.

Andre J. Costanza *January 22, 2010*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; '02, 8¢. Next earnings report due early February.
(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.
(C) Incl. deferred charges. In '08: $3.9 mill., $.19/sh.
(D) In millions, adjusted for split.
(E) Excludes non-reg. rev.

Company's Financial Strength	B++
Stock's Price Stability	80
Price Growth Persistence	75
Earnings Predictability	80

AQUA AMERICA NYSE-WTR	RECENT PRICE 17.57	P/E RATIO 20.9 (Trailing: 23.7 / Median: 25.0)	RELATIVE P/E RATIO 1.21	DIV'D YLD 3.4%	VALUE LINE

TIMELINESS 3 Lowered 6/26/09
SAFETY 3 Lowered 8/1/03
TECHNICAL 3 Lowered 1/1/10
BETA .65 (1.00 = Market)

High:	11.5	11.5	12.0	14.8	15.0	16.8	18.5	29.2	29.8	26.6	22.0	21.5
Low:	7.2	7.6	6.3	9.4	9.6	11.8	14.2	17.5	20.1	18.9	12.2	15.4

Target Price Range
2012 | 2013 | 2014

2012-14 PROJECTIONS

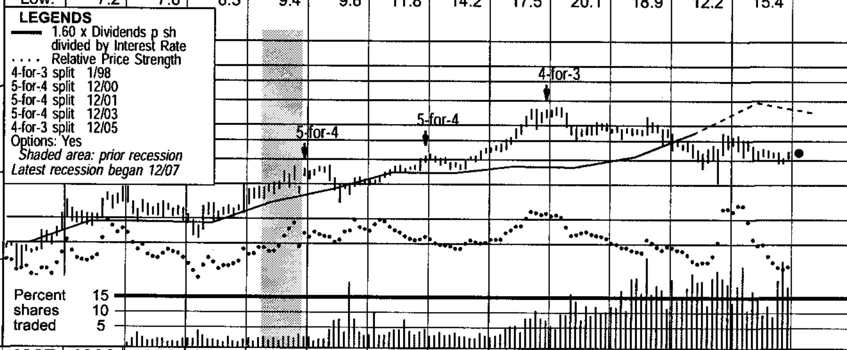
	Price	Gain	Ann'l Total Return
High	30	(+70%)	14%
Low	20	(+15%)	3%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	0	0	0	0
Options	1	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	130	117	88
to Sell	134	136	118
Hld's(000)	63551	61341	60196



% TOT. RETURN 12/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-12.2	60.8
3 yr.	-16.7	1.9
5 yr.	6.4	25.9

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
1.70	1.82	1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.03	4.52	4.63	*4.95*	*5.35*	Revenues per sh	*6.45*
.42	.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	1.37	1.42	*1.70*	*1.85*	"Cash Flow" per sh	*2.40*
.24	.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.71	.73	*.80*	*.90*	Earnings per sh A	*1.25*
.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.48	.51	.55	*.59*	Div'd Decl'd per sh B■	*.70*
.47	.46	.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	2.05	1.79	1.98	*1.90*	*1.95*	Cap'l Spending per sh	*2.15*
2.29	2.41	2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.96	7.32	7.82	*7.90*	*8.35*	Book Value per sh	*10.35*
59.40	59.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	132.33	133.40	135.37	*136.30*	*137.00*	Common Shs Outst'g C	*139.00*
14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	*22.2*		Avg Ann'l P/E Ratio	*21.0*
.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	*1.48*		Relative P/E Ratio	*1.40*
5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.0%		Avg Ann'l Div'd Yield	*2.0%*
						257.3	275.5	307.3	322.0	367.2	442.0	496.8	533.5	602.5	627.0	*675*	*735*	Revenues ($mill)	*900*
						45.0	50.7	58.5	62.7	67.3	80.0	91.2	92.0	95.0	97.9	*109*	*123*	Net Profit ($mill)	*175*
						38.4%	38.9%	39.3%	38.5%	39.3%	39.4%	38.4%	39.6%	38.9%	39.7%	*39.0%*	*39.0%*	Income Tax Rate	*39.0%*
						--	--	--	--	--	--	--	--	2.9%	3.1%	*3.0%*	*2.6%*	AFUDC % to Net Profit	*2.0%*
						52.9%	52.0%	52.2%	54.2%	51.4%	50.0%	52.0%	51.6%	55.4%	54.1%	*54.0%*	*53.0%*	Long-Term Debt Ratio	*48.0%*
						46.7%	47.8%	47.7%	45.8%	48.6%	50.0%	48.0%	48.4%	44.6%	45.9%	*46.0%*	*47.0%*	Common Equity Ratio	*52.0%*
						782.7	901.1	990.4	1076.2	1355.7	1497.3	1690.4	1904.4	2191.4	2306.6	*2276*	*2345*	Total Capital ($mill)	*2765*
						1135.4	1251.4	1368.1	1490.8	1824.3	2069.8	2280.0	2506.0	2792.8	2997.4	*3150*	*3300*	Net Plant ($mill)	*3500*
						7.6%	7.4%	7.8%	7.6%	6.4%	6.7%	6.9%	6.4%	5.9%	5.7%	*6.0%*	*6.5%*	Return on Total Cap'l	*7.5%*
						12.2%	11.7%	12.3%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	*10.0%*	*10.5%*	Return on Shr. Equity	*12.0%*
						12.3%	11.7%	12.4%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	*10.0%*	*10.5%*	Return on Com Equity	*12.0%*
						4.3%	4.7%	5.1%	5.2%	4.2%	4.6%	4.9%	3.7%	3.2%	2.8%	*3.5%*	*3.0%*	Retained to Com Eq D	*5.0%*
						65%	60%	59%	59%	59%	57%	56%	63%	67%	70%	*66%*	*69%*	All Div'ds to Net Prof	*57%*

CAPITAL STRUCTURE as of 9/30/09
Total Debt $1320.2 mill. **Due in 5 Yrs** $245.0 mill.
LT Debt $1265.4 mill. **LT Interest** $65.0 mill.
(LT interest earned: 3.4x; total interest coverage: 3.4x) (54% of Cap'l)

Pension Assets-12/08 $112.2 mill. **Oblig.** $204.7 mill.

Pfd Stock None
Common Stock 136,270,613 shares as of 10/20/09

MARKET CAP: $2.4 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	14.5	14.9	18.0
Receivables	82.9	84.5	86.1
Inventory (AvgCst)	8.8	9.8	10.3
Other	9.3	11.8	10.5
Current Assets	115.5	121.0	124.9
Accts Payable	45.8	50.0	26.3
Debt Due	80.8	87.9	54.8
Other	56.6	55.3	149.0
Current Liab.	183.2	193.2	230.1
Fix. Chg. Cov.	323%	329%	325%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	8.0%	9.0%	*6.5%*
"Cash Flow"	9.5%	8.0%	*10.0%*
Earnings	7.5%	5.5%	*10.0%*
Dividends	7.0%	8.0%	*6.5%*
Book Value	9.5%	10.0%	*6.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	117.9	131.7	147.0	136.9	533.5
2007	137.3	150.6	165.5	149.1	602.5
2008	139.3	151.0	177.1	159.6	627.0
2009	154.5	167.3	180.8	*172.4*	*675*
2010	*165*	*185*	*195*	*190*	*735*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.13	.17	.21	.19	.70
2007	.13	.17	.22	.19	.71
2008	.11	.17	.26	.19	.73
2009	.14	.19	.25	*.22*	*.80*
2010	*.15*	*.22*	*.28*	*.25*	*.90*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.107	.107	.115	.115	.44
2007	.115	.115	.125	.125	.48
2008	.125	.125	.125	.135	.51
2009	.135	.135	.135	.145	.55
2010					

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '08: residential, 60%; commercial, 14%; industrial & other, 26%. Officers and directors own 1.3% of the common stock (4/09 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

During the September interim, Aqua America lost some ground on a year-over-year basis. Although revenues were up slightly from the prior year, earnings dropped a penny, as unfavorable weather conditions and higher operating costs hurt profits during the third quarter. Looking ahead, though,
the company probably ended the year on a good note. A number of rate-relief cases were set to be decided in the fourth quarter which, if approved, should provide a slight last-minute boost to the top and bottom lines. Also, management has been actively working to reduce operating costs, and the benefits of these efforts should help widen margins. For the year, we expect a total increase in revenues and earnings of $48 million and $0.07 a share, respectively, but it should be noted that last year included a gain from the sale of its underperforming Woodhaven system.
Aqua America should continue to expand its reach through acquisitions and rate-relief cases over the next few years. The company has acquired a wastewater treatment plant in Lumpkin County, Georgia, and this new subsidiary (Aqua Georgia Inc.) may be bolstered by further purchases in this region. Also, WTR expanded its Aqua Pennsylvania division in December, purchasing the assets of Athens Township Authority, and subsequently signed a 20-year contract to provide water services. Additionally, the $75 million in rate cases filed in 2009 should, if judged in Aqua's favor, boost revenues and earnings over the next few years.
These shares are a neutral choice for the coming six to 12 month period, but hold some appeal for the long haul. One attractive trait is the steady dividend yield, which was raised 7.4% during the fourth quarter of 2008. The company has historically raised its payout every year, and this will most likely continue over the coming 3- to 5-year stretch. Also, the top- and bottom-line gains we project over the 2012-2014 horizon give this equity good recovery potential. Conservative investors should also take note of the high scores for Stock Price Stability and Earnings Predictability, as well as the below-the-market average Beta coefficient.

John D. Burke *January 22, 2010*

(A) Diluted shares. Excl. nonrec. gains (losses): '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due early February.

(B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount).

(C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	70
Earnings Predictability	100

ATTACHMENT B

After a difficult year in 2009, the Natural Gas Utility Industry will likely begin on its road to recovery. The economic environment is improving, which should ease some of the pressures these companies endured over the past 12 months. These utilities have done their best to stave off these challenges through a variety of strategies. Despite the hard times, many of these stocks offer attractive dividend yields, which may interest income-oriented investors.

Macroeconomic Climate

Natural Gas Utilities generally offer fairly predictable cash flows, solid balance sheets, and good yields. Therefore, when times are tough, investor interest in these defensive equities picks up. However, when the stock market rallies, investors tend to flock to issues that have the potential for greater returns. On point, natural gas utility stocks have not performed well over the past year. Indeed, the difficult economic environment weighed on this group in 2009. Reduced industrial demand, weakness in the housing market, and conservative spending all hurt results. Additionally, bill collection has become tougher due to high unemployment levels. In response, these companies have scaled back their spending and increased their marketing in an effort to weather these challenges. All told, investor confidence appears to be picking up, which suggests the worst may be behind these companies.

Regulation

This group is regulated by state commissions that determine the return on equity these stocks can realize. Consequently, rate cases remain key to this sector's performance. If a company does not have adequate relief, its budget can become stretched. On the other hand, a rate that is too generous can give utilities too much upside at the expense of its customers. State commissions are constantly working to keep a balance between shareholder and customer interests. These decisions are carefully monitored by investors due to their impact on stock valuations. A positive decision can significantly improve a company's prospects, while a negative one can limit its near-term outlook. Thus, interested investors should pay close attention to the regulatory environment.

Composite Statistics: Natural Gas Utility

2006	2007	2008	2009	2010	2011		13-15
38273	38528	44207	***45500***	***47000***	***48500***	Revenues ($mill)	***54750***
1553.3	1562.4	1694.2	***1775***	***1850***	***1925***	Net Profit ($mill)	***2250***
35.3%	33.9%	35.7%	***36.0%***	***36.0%***	***36.0%***	Income Tax Rate	***36.0%***
4.0%	4.1%	3.8%	***3.9%***	***3.9%***	***4.0%***	Net Profit Margin	***4.1%***
51.2%	50.4%	50.6%	***51.0%***	***51.0%***	***51.0%***	Long-Term Debt Ratio	***52.0%***
48.7%	49.5%	49.4%	***48.0%***	***48.0%***	***48.0%***	Common Equity Ratio	***46.0%***
30847	32263	32729	***33250***	***34750***	***36250***	Total Capital ($mill)	***42000***
32543	33936	35342	***36750***	***38500***	***40250***	Net Plant ($mill)	***48250***
6.6%	6.5%	6.8%	***6.5%***	***6.0%***	***5.5%***	Return on Total Cap'l	***5.5%***
10.2%	9.8%	10.5%	***10.0%***	***10.5%***	***10.0%***	Return on Shr. Equity	***10.0%***
10.2%	9.8%	10.5%	***10.0%***	***10.5%***	***10.0%***	Return on Com Equity	***10.0%***
4.0%	3.7%	4.3%	***4.0%***	***4.5%***	***4.0%***	Retained to Com Eq	***4.5%***
61%	62%	59%	***60%***	***62%***	***61%***	All Div'ds to Net Prof	***65%***
15.6	16.6	13.9		*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	***13.0***
.84	.88	.83				Relative P/E Ratio	***.85***
3.9%	3.7%	4.2%				Avg Ann'l Div'd Yield	***4.6%***
327%	336%	358%	***375%***	***375%***	***375%***	Fixed Charge Coverage	***400%***

INDUSTRY TIMELINESS: 82 (of 97)

Weather

Colder-than-normal weather of late may have provide a boost to natural gas prices due to lower supply. However, now that the peak heating season is in the rear-view mirror, these utilities will likely post weak results as they enter a seasonably slow time of year. Therefore, we look for these companies to focus on cost management to strengthen their results during the warmer months.

Business Strategy

A strategy that is becoming increasingly common is nonregulated businesses. These ventures allow firms to diversify their operations and gain income that is not subject to regulatory authorities. While these operations are often more risky, they generally offer a greater potential for returns.

Conservation is also becoming a noticeably important theme in this sector. Governments are encouraging these utilities to partake in energy-efficiency programs by offering incentives. This way companies can participate without hurting their profitability. All told, we think these initiatives will continue to gain momentum going forward.

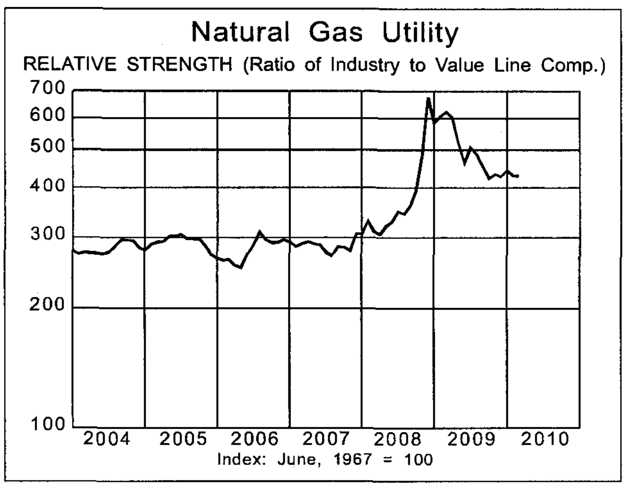
Dividends

Income-oriented accounts may want to consider some of the equities in this industry. Indeed, these equities on average have better dividend yields (4.2%) compared to the *Value Line* median (2.0%). Most notably, *NiSource*, *AGL Resources*, *Atmos Energy* and *Laclede Group* all stand out for their hearty payouts.

Conclusion

Natural Gas Utility stocks have fallen near the bottom of our Industry spectrum for Timeliness. Accordingly, short-term investors would probably do best to find a group with better prospects over the coming six to 12 months.Longer-term, we expect these businesses to rebound. An improved economic environment, coupled with stronger pricing, should boost results across this sector over the coming years. In sum, we think patient investors will find a few issues in this sector that offer enticing total-return potential over the 2013-2015 time frame.

Richard Gallagher



AGL RESOURCES NYSE-AGL

RECENT PRICE **37.00** | P/E RATIO **12.5** (Trailing: 12.8; Median: 14.0) | RELATIVE P/E RATIO **0.74** | DIV'D YLD **4.8%** | VALUE LINE

TIMELINESS 3 Raised 2/12/10

SAFETY 2 New 7/27/90

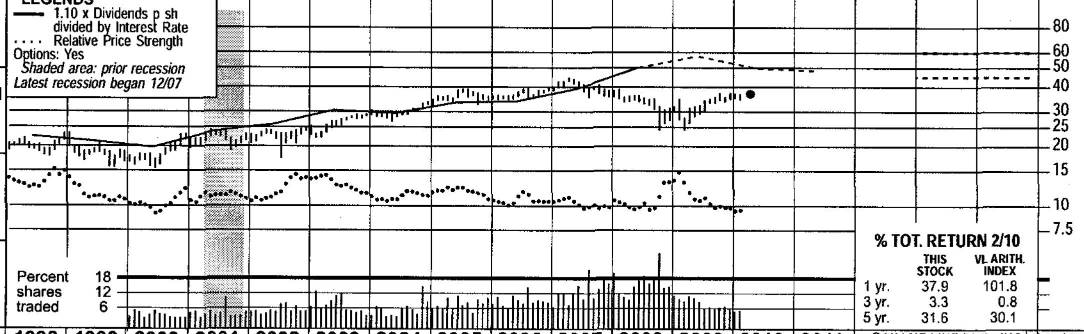
TECHNICAL 3 Lowered 2/12/10

BETA .75 (1.00 = Market)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High:	23.4	23.2	24.5	25.0	29.3	33.7	39.3	40.1	44.7	39.1	37.5	37.2	
Low:	15.6	15.5	19.0	17.3	21.9	26.5	32.0	34.4	35.2	24.0	24.0	34.3	

Target Price Range 2013 | 2014 | 2015

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+60%)	13%
Low	45	(+20%)	5%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	1	0	0	0	0	1	1	2
to Sell	0	2	0	0	1	0	0	2	1

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	110	124	112
to Sell	107	96	99
Hld's(000)	45714	45662	45741

Percent shares traded 18 / 12 / 6

% TOT. RETURN 2/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	37.9	101.8
3 yr.	3.3	0.8
5 yr.	31.6	30.1

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
23.59	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	33.73	32.64	36.41	29.90	34.35	36.10	Revenues per sh A	40.35
2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	4.50	4.65	4.68	5.95	5.05	5.30	"Cash Flow" per sh	5.75
1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	2.72	2.72	2.71	2.89	2.95	3.10	Earnings per sh A B	3.40
1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	1.48	1.64	1.68	1.72	1.76	1.80	Div'ds Decl'd per sh C■	1.92
2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	3.26	3.39	4.84	6.15	4.45	4.50	Cap'l Spending per sh	5.30
10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	20.71	21.74	21.48	22.95	24.10	25.45	Book Value per sh D	29.95
50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.70	76.40	76.90	77.50	78.50	79.00	Common Shs Outst'g E	80.50
15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	13.5	14.7	12.3	11.1	Bold figures are		Avg Ann'l P/E Ratio	15.0
.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	.78	.74	.73	Value Line		Relative P/E Ratio	1.00
5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%	3.7%	4.0%	4.1%	5.0%	5.4%	estimates		Avg Ann'l Div'd Yield	3.8%

CAPITAL STRUCTURE as of 12/31/09
Total Debt $2576.0 mill. Due in 5 Yrs $543.0 mill.
LT Debt $1974.0 mill. LT Interest $90.0 mill.
(Total interest coverage: 4.5x)

Leases, Uncapitalized Annual rentals $28.0 mill.
Pension Assets-12/09 $303.0 mill. Oblig. $463.0 mill.

Pfd Stock None

Common Stock 77,543,821 shs. as of 1/29/10

MARKET CAP: $2.9 billion (Mid Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
607.4	1049.3	868.9	983.7	1832.0	2718.0	2621.0	2494.0	2800.0	2317.0	2695	2850	Revenues ($mill) A	3250
71.1	82.3	103.0	132.4	153.0	193.0	212.0	211.0	207.6	260	230	245	Net Profit ($mill)	275
34.3%	40.7%	36.0%	35.9%	37.0%	37.7%	37.8%	37.6%	40.5%	30.0%	35.0%	35.0%	Income Tax Rate	38.0%
11.7%	7.8%	11.9%	13.5%	8.4%	7.1%	8.1%	8.5%	7.4%	11.2%	8.6%	8.6%	Net Profit Margin	8.4%
45.9%	61.3%	58.3%	50.3%	54.0%	51.9%	50.2%	50.2%	50.3%	53.0%	54.0%	52.0%	Long-Term Debt Ratio	51.0%
48.3%	38.7%	41.7%	49.7%	46.0%	48.1%	49.8%	49.8%	49.7%	48.0%	50.0%	48.0%	Common Equity Ratio	49.0%
1286.2	1736.3	1704.3	1901.4	3008.0	3114.0	3231.0	3335.0	3327.0	3750	3800	4200	Total Capital ($mill)	4900
1637.5	2058.9	2194.2	2352.4	3178.0	3271.0	3436.0	3566.0	3816.0	2900	3080	3250	Net Plant ($mill)	3900
7.4%	6.5%	8.1%	8.9%	6.3%	7.9%	8.0%	7.7%	7.4%	7.0%	7.0%	6.5%	Return on Total Cap'l	6.5%
10.2%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	14.5%	12.0%	12.0%	Return on Shr. Equity	11.0%
11.5%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	14.5%	12.0%	12.0%	Return on Com Equity	11.0%
3.2%	4.2%	7.0%	6.6%	5.6%	6.2%	6.3%	5.3%	5.1%	7.0%	5.0%	5.5%	Retained to Com Eq	5.0%
72%	65%	52%	53%	49%	52%	52%	58%	60%	50%	58%	57%	All Div'ds to Net Prof	55%

CURRENT POSITION ($MILL.)

	2007	2008	12/31/09
Cash Assets	21.0	16.0	26.0
Other	1790.0	2026.0	1974.0
Current Assets	1811.0	2042.0	2000.0
Accts Payable	172.0	202.0	237.0
Debt Due	580.0	866.0	602.0
Other	893.0	915.0	933.0
Current Liab.	1645.0	1983.0	1772.0
Fix. Chg. Cov.	391%	416%	472%

ANNUAL RATES

of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '13-'15
Revenues	4.0%	15.5%	2.5%
"Cash Flow"	6.0%	6.5%	3.0%
Earnings	7.0%	8.5%	3.5%
Dividends	4.0%	8.0%	2.5%
Book Value	7.0%	10.0%	5.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	973	467	369	685	2494
2008	1012	444	539	805	2800
2009	995	377	307	638	2317
2010	1020	450	475	750	2695
2011	1075	475	500	800	2850

Cal-endar	EARNINGS PER SHARE B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	1.29	.40	.17	.86	2.72
2008	1.16	.30	.28	.97	2.71
2009	1.55	.26	.16	.92	2.89
2010	1.50	.30	.25	.90	2.95
2011	1.41	.36	.33	1.00	3.10

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.37	.37	.37	.37	1.48
2007	.41	.41	.41	.41	1.64
2008	.42	.42	.42	.42	1.68
2009	.43	.43	.43	.43	1.72
2010	.44				

BUSINESS: AGL Resources Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas and Virginia Natural Gas. The utilities have more than 2.3 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Maryland. Engaged in nonregulated natural gas marketing and other allied services. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. Franklin Resources owns 7.7% of common stock; off./dir., less than 1.0% (3/09 Proxy). Pres. & CEO: John W. Somerhalder II. Inc.: GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.

AGL Resources reported better-than-anticipated fourth quarter profit. Earnings of $0.92 a share topped our estimate of $0.78 a share. A good performance in the company's unregulated businesses offset disappointing results in AGL's gas utility operations. For the full year, the utility posted a solid bottom-line showing ($2.89 a share), thanks to strong results in the March period. However, a year-over-year decline in customers weighed on the top line ($2.3 billion).

The company provided positive guidance for 2010. Management expects share net to come in between $2.95 and $3.05 this year. We have increased our estimate by a nickel, matching the low end of this range. We look for results across AGL's operations to perform mostly in line with 2009's showing except at the company's wholesale services business, which should post improved results. Moreover, AGL will probably focus on new projects to offset the decline in customers due to the weak residential real estate market. Furthermore, the company recently added two new pipeline projects that began commercial operation recently, which should provide a boost to results over the coming months.

The board raised AGL's quarterly payout by a penny (or 2.3%) to $0.44 a share. Accordingly, income-oriented accounts may want to take note of these shares. Indeed, this stock's yield (4.8%) is above average for a natural gas utility.

Long-term prospects appear to be promising. The company reached a legal settlement, which will allow it to expand its presence on Jefferson Island. Moreover, a few rate cases should come into play in the near term, which if approved, would bolster results over the long haul. Additionally, AGL recently launched a new energy services business that targets large-scale clients. This should contribute to profits in the years ahead.

These shares are neutrally ranked for Timeliness. But this stock may be of interest to patient investors. Indeed, the issue is attractive on a risk-adjusted basis (Safety: 2) for total-return potential over the 3- to 5-year pull, based on our projections of steady earnings growth and modest dividend increases.

Richard Gallagher *March 12, 2010*

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
(B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, ($0.83); '99, $0.39; '00, $0.13; '01, $0.13; '03, ($0.07); '08, $0.13. Next earnings report due late April. (C) Dividends historically paid early March, June, Sept., and Dec. ■ Div'd reinvest. plan available. (D) Includes intangibles. In 2009: $418 million, $5.44/share.
(E) In millions.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	75
Earnings Predictability	95

ATMOS ENERGY CORP. NYSE-ATO

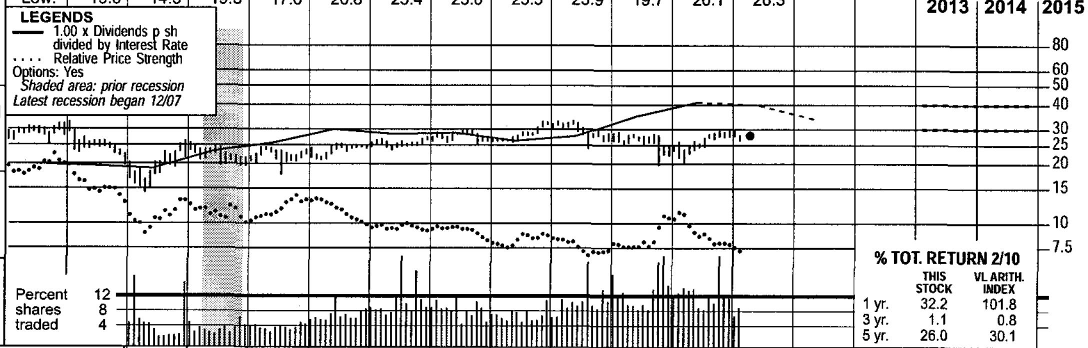
RECENT PRICE	28.05	P/E RATIO	12.5 (Trailing: 13.1 / Median: 15.0)	RELATIVE P/E RATIO	0.74	DIV'D YLD	4.8%	VALUE LINE

TIMELINESS 3 Lowered 9/11/09
SAFETY 2 Raised 12/16/05
TECHNICAL 3 Raised 10/16/09
BETA .65 (1.00 = Market)

High:	33.0	26.3	25.8	24.5	25.5	27.6	30.0	33.1	33.5	29.3	30.3	30.0
Low:	19.6	14.3	19.5	17.6	20.8	23.4	25.0	25.5	23.9	19.7	20.1	26.3

Target Price Range
2013 | 2014 | 2015

LEGENDS
— 1.00 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+45%)	13%
Low	30	(+5%)	6%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	1	0	0	1	0
to Sell	0	0	0	0	3	0	0	1	1

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	108	107	79
to Sell	122	115	124
Hld's(000)	53874	54285	55892

Percent shares traded 12 8 4

% TOT. RETURN 2/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	32.2	101.8
3 yr.	1.1	0.8
5 yr.	26.0	30.1

Atmos Energy's history dates back to 1906 in the Texas Panhandle. Over the years, through various mergers, it became part of Pioneer Corporation, and, in 1981, Pioneer named its gas distribution division Energas. In 1983, Pioneer organized Energas as a separate subsidiary and distributed the outstanding shares of Energas to Pioneer shareholders. Energas changed its name to Atmos in 1988. Atmos acquired Trans Louisiana Gas in 1986, Western Kentucky Gas Utility in 1987, Greeley Gas in 1993, United Cities Gas in 1997, and others.

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
26.61	35.36	22.82	54.39	46.50	61.75	75.27	66.03	79.52	53.69	**48.95**	**50.00**	Revenues per sh A	**68.20**
3.01	3.03	3.39	3.23	2.91	3.90	4.26	4.14	4.19	4.29	**4.70**	**4.90**	"Cash Flow" per sh	**5.40**
1.03	1.47	1.45	1.71	1.58	1.72	2.00	1.94	2.00	1.97	**2.25**	**2.35**	Earnings per sh A B	**2.70**
1.14	1.16	1.18	1.20	1.22	1.24	1.26	1.28	1.30	1.32	**1.34**	**1.36**	Div'ds Decl'd per sh C■	**1.45**
2.36	2.77	3.17	3.10	3.03	4.14	5.20	4.39	5.20	5.51	**5.60**	**5.70**	Cap'l Spending per sh	**6.70**
12.28	14.31	13.75	16.66	18.05	19.90	20.16	22.01	22.60	23.52	**24.50**	**24.95**	Book Value per sh	**27.80**
31.95	40.79	41.68	51.48	62.80	80.54	81.74	89.33	90.81	92.55	**94.00**	**96.00**	Common Shs Outst'g D	**110.00**
18.9	15.6	15.2	13.4	15.9	16.1	13.5	15.9	13.6	12.5	*Bold figures are*	*Value Line estimates*	Avg Ann'l P/E Ratio	**13.0**
1.23	.80	.83	.76	.84	.86	.73	.84	.82	.82			Relative P/E Ratio	**.85**
5.9%	5.1%	5.4%	5.2%	4.9%	4.5%	4.7%	4.2%	4.8%	5.3%			Avg Ann'l Div'd Yield	**4.1%**
850.2	1442.3	950.8	2799.9	2920.0	4973.3	6152.4	5898.4	7221.3	4969.1	**4600**	**4800**	Revenues ($mill) A	**7500**
32.2	56.1	59.7	79.5	86.2	135.8	162.3	170.5	180.3	179.7	**210**	**225**	Net Profit ($mill)	**300**
36.1%	37.3%	37.1%	37.1%	37.4%	37.7%	37.6%	35.8%	38.4%	34.4%	**38.5%**	**38.5%**	Income Tax Rate	**40.5%**
3.8%	3.9%	6.3%	2.8%	3.0%	2.7%	2.6%	2.9%	2.5%	3.6%	**4.6%**	**4.7%**	Net Profit Margin	**4.0%**
48.1%	54.3%	53.9%	50.2%	43.2%	57.7%	57.0%	52.0%	50.8%	49.9%	**49.0%**	**49.0%**	Long-Term Debt Ratio	**49.0%**
51.9%	45.7%	46.1%	49.8%	56.8%	42.3%	43.0%	48.0%	49.2%	50.1%	**51.0%**	**51.0%**	Common Equity Ratio	**51.0%**
755.7	1276.3	1243.7	1721.4	1994.8	3785.5	3828.5	4092.1	4172.3	4346.2	**4520**	**4700**	Total Capital ($mill)	**6000**
982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3629.2	3836.8	4136.9	4439.1	**4745**	**5050**	Net Plant ($mill)	**6100**
6.5%	5.9%	6.8%	6.2%	5.8%	5.3%	6.1%	5.9%	5.9%	5.9%	**6.0%**	**6.5%**	Return on Total Cap'l	**6.5%**
8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	**9.0%**	**9.5%**	Return on Shr. Equity	**10.0%**
8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	**9.0%**	**9.5%**	Return on Com Equity	**10.0%**
NMF	2.1%	1.9%	2.8%	1.7%	2.3%	3.6%	3.0%	3.1%	2.7%	**3.5%**	**4.0%**	Retained to Com Eq	**4.5%**
112%	79%	82%	70%	77%	73%	63%	65%	65%	68%	**60%**	**58%**	All Div'ds to Net Prof	**53%**

CAPITAL STRUCTURE as of 12/31/09
Total Debt $2349.3 mill. **Due in 5 Yrs** $685.0 mill.
LT Debt $2159.5 mill. **LT Interest** $130.0 mill.
(LT interest earned: 2.8x; total interest coverage: 2.8x)
Leases, Uncapitalized Annual rentals $17.8 mill.
Pfd Stock None
Pension Assets-9/09 $301.1 mill. Oblig. $380.0 mill.
Common Stock 93,054,189 shs. as of 1/28/10
MARKET CAP: $2.6 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2008	2009	12/31/09
Cash Assets	46.7	111.2	174.8
Other	1238.4	717.7	1111.8
Current Assets	1285.1	828.9	1286.6
Accts Payable	395.4	207.4	578.8
Debt Due	351.3	72.7	189.8
Other	460.4	457.3	413.8
Current Liab.	1207.1	737.4	1182.4
Fix. Chg. Cov.	450%	416%	435%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	9.5%	10.0%	.5%
"Cash Flow"	3.5%	6.0%	4.5%
Earnings	4.0%	4.5%	5.5%
Dividends	2.0%	1.5%	2.0%
Book Value	7.0%	7.0%	3.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	1602.6	2075.6	1218.2	1002.0	5898.4
2008	1657.5	2484.0	1639.1	1440.7	7221.3
2009	1716.3	1821.4	780.8	650.6	4969.1
2010	1292.9	**1650**	**900**	**757.1**	**4600**
2011	**1065**	**1835**	**1045**	**855**	**4800**

Fiscal Year Ends	EARNINGS PER SHARE A B E Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	.97	1.20	d.15	d.05	1.94
2008	.82	1.24	d.07	.02	2.00
2009	.83	1.29	.02	d.17	1.97
2010	1.00	**1.32**	**.05**	**d.12**	**2.25**
2011	**.97**	**1.36**	**.03**	**d.01**	**2.35**

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.315	.315	.315	.32	1.27
2007	.32	.32	.32	.325	1.29
2008	.325	.325	.325	.33	1.31
2009	.33	.33	.33	.335	1.33
2010	.335				

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to over three million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, *Mid-Tex Division, Mississippi Division,* Colorado-Kansas Division, and Kentucky/Mid-States Division. Combined 2009 gas volumes: 282 MMcf. Breakdown: 57%, residential; 32%, commercial; 7%, industrial; and 4% other. 2009 depreciation rate 3.6%. Has around 4,700 employees. Officers and directors own approximately 1.6% of common stock (12/09 Proxy). Chairman and Chief Executive Officer: Robert W. Best. Incorporated: Texas. Address: P.O. Box 650205, Dallas, Texas 75265. Telephone: 972-934-9227. Internet: www.atmosenergy.com.

Atmos Energy got off to a strong start in fiscal 2010, which ends on September 30th, as first-quarter earnings per share were around 20% higher than the year-earlier tally. For one thing, the natural gas marketing segment enjoyed a substantial increase in unrealized margins, brought about, to a certain extent, by a narrowing of spreads between current cash prices and forward natural gas prices. Furthermore, results for the natural gas utility were aided partially by higher rates in the Mid-Tex, Louisiana, and West Texas service areas. That unit also benefited from a 7% rise in throughput, as colder temperatures boosted consumption. Finally, the regulated transmission and storage operation experienced a drop in operating expenses because of a decreased level of pipeline maintenance activity.

We expect the momentum to continue during the remaining three quarters. As a result, the bottom line stands to advance about 14%, to $2.25 a share, in fiscal 2010. Assuming further expansion in operating margins, share net may reach $2.35 next year. That would be a much slower rate of growth due to the difficult comparison.

Steady, though unexciting, earnings gains appear to be in store for the company in the next three to five years. The utility is one of the nation's largest natural gas-only distributors, now serving over three million customers across 12 states. Moreover, the unregulated segments (contributing between 15% and 35% to net income annually on a historical basis) possess healthy prospects. Lastly, management may return to its successful strategy of purchasing less-efficient utilities and shoring up their profitability through expense-reduction initiatives, rate relief, and aggressive marketing. (Future acquisitions are excluded from our figures, however.) In Atmos' current configuration, annual share-net growth could be in the mid-single-digit range over the 2013-2015 period.

On a risk-adjusted basis, total return potential is appealing. Meanwhile, these good-quality shares are ranked to perform in line with the broader market in the year ahead.

Frederick L. Harris, III *March 12, 2010*

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '00, 12¢; '03, d17¢; '06, d18¢; '07, d2¢; '09, 12¢. Next egs. rpt. due early May. (C) Dividends historically paid in early March, June, Sept., and Dec. ■ Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions. (E) Qtrs may not add due to change in shrs outstanding.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	90

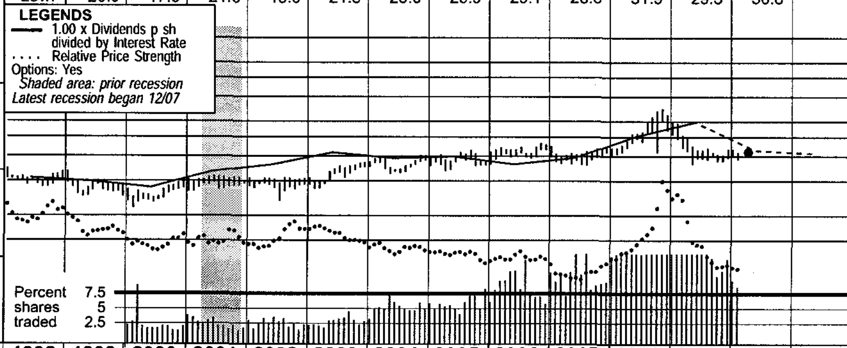
LACLEDE GROUP NYSE-LG

RECENT PRICE	33.81	P/E RATIO	13.8 (Trailing: 13.4 / Median: 14.0)	RELATIVE P/E RATIO	0.81	DIV'D YLD	4.7%	VALUE LINE

TIMELINESS 5 Lowered 2/5/10
SAFETY 2 Raised 6/20/03
TECHNICAL 1 Raised 2/5/10
BETA .60 (1.00 = Market)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High:	27.0	24.8	25.5	25.0	30.0	32.5	34.3	37.5	36.0	55.8	48.3	34.8	
Low:	20.0	17.5	21.3	19.0	21.8	26.0	26.9	29.1	28.8	31.9	29.3	30.8	

LEGENDS
1.00 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



Target Price Range
2013 | 2014 | 2015
128 / 96 / 80 / 64 / 48 / 40 / 32 / 24 / 16 / 12

2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+65%)	16%
Low	40	(+20%)	8%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	2	1	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	1	0	0	0	0	0	0	1

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	70	71	60
to Sell	81	81	67
Hld's(000)	11043	10569	10660

Percent shares traded 7.5 / 5 / 2.5

% TOT. RETURN 2/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	-13.3	101.8
3 yr.	19.7	0.8
5 yr.	29.8	30.1

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
33.43	24.79	31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	75.43	93.51	93.40	100.44	85.49	*72.90*	*76.10*	Revenues per sh	*96.15*
2.65	2.55	3.29	3.32	3.02	2.56	2.68	3.00	2.56	3.15	2.79	2.98	3.81	3.87	4.22	4.56	*4.15*	*4.35*	"Cash Flow" per sh	*5.20*
1.42	1.27	1.87	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	2.37	2.31	2.64	2.92	*2.45*	*2.60*	Earnings per sh A B	*3.00*
1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	1.37	1.40	1.45	1.49	1.53	*1.57*	*1.61*	Div'ds Decl'd per sh C■	*1.75*
2.50	2.63	2.35	2.44	2.68	2.58	2.77	2.51	2.80	2.67	2.45	2.84	2.97	2.72	2.57	2.36	*2.45*	*2.55*	Cap'l Spending per sh	*3.15*
12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.31	18.85	19.79	22.12	23.32	*23.90*	*24.30*	Book Value per sh D	*27.70*
15.67	17.42	17.56	17.56	17.63	18.88	18.88	18.88	18.96	19.11	20.98	21.17	21.36	21.65	21.99	22.17	*22.50*	*23.00*	Common Shs Outst'g E	*26.00*
16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2	13.6	14.2	14.3	13.4	*Bold figures are*		Avg Ann'l P/E Ratio	*16.0*
1.08	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86	.73	.75	.86	.88	*Value Line*		Relative P/E Ratio	*1.05*
5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%	4.3%	4.4%	3.9%	3.9%	*estimates*		Avg Ann'l Div'd Yield	*3.7%*

CAPITAL STRUCTURE as of 12/31/09
Total Debt $509.5 mill. **Due in 5 Yrs** $180.0 mill.
LT Debt $364.3 mill. **LT Interest** $20.0 mill.
(Total interest coverage: 4.3x)

Leases, Uncapitalized Annual rentals $.9 mill.
Pension Assets-9/09 $223.7 mill. **Oblig.** $378.0 mill.

Pfd Stock None

Common Stock 22,262,436 shs.
as of 1/28/10

MARKET CAP: $750 million (Small Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
566.1	1002.1	755.2	1050.3	1250.3	1597.0	1997.6	2021.6	2209.0	1895.2	*1640*	*1750*	Revenues ($mill) A	*2500*
26.0	30.5	22.4	34.6	36.1	40.1	50.5	49.8	57.6	64.3	*55.0*	*60.0*	Net Profit ($mill)	*80.0*
35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	32.5%	33.4%	31.3%	33.6%	*35.0%*	*35.0%*	Income Tax Rate	*35.0%*
4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	2.5%	2.5%	2.6%	3.4%	*3.4%*	*3.4%*	Net Profit Margin	*3.2%*
45.2%	49.5%	47.5%	50.4%	51.6%	48.1%	49.5%	45.3%	44.4%	42.9%	*42.5%*	*43.0%*	Long-Term Debt Ratio	*47.0%*
54.5%	50.2%	52.3%	49.4%	48.3%	51.8%	50.4%	54.6%	55.5%	57.1%	*57.5%*	*57.0%*	Common Equity Ratio	*53.0%*
519.2	574.1	546.6	605.0	737.4	707.9	798.9	784.5	876.1	906.3	*935*	*980*	Total Capital ($mill)	*1360*
575.4	602.5	594.4	621.2	646.9	679.5	763.8	793.8	823.2	855.9	*870*	*915*	Net Plant ($mill)	*1230*
6.7%	6.9%	6.0%	7.4%	6.6%	7.6%	8.4%	8.5%	8.1%	8.7%	*7.0%*	*7.5%*	Return on Total Cap'l	*7.5%*
9.1%	10.5%	7.8%	11.5%	10.1%	10.9%	12.5%	11.6%	11.8%	12.4%	*10.0%*	*10.5%*	Return on Shr. Equity	*11.0%*
9.1%	10.5%	7.8%	11.6%	10.1%	10.9%	12.5%	11.6%	11.8%	12.4%	*10.0%*	*10.5%*	Return on Com Equity	*11.0%*
.2%	1.8%	NMF	3.1%	2.7%	3.1%	5.1%	4.3%	5.2%	5.9%	*3.5%*	*4.0%*	Retained to Com Eq	*5.0%*
98%	83%	113%	74%	73%	72%	59%	63%	56%	53%	*64%*	*62%*	All Div'ds to Net Prof	*57%*

CURRENT POSITION ($MILL.)	2008	2009	12/31/09
Cash Assets	14.9	74.6	80.0
Other	547.0	294.2	396.7
Current Assets	561.9	368.8	476.7
Accts Payable	159.6	72.8	135.1
Debt Due	216.1	129.8	145.2
Other	103.5	96.5	127.5
Current Liab.	479.2	299.1	407.8
Fix. Chg. Cov.	377%	420%	400%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	12.0%	12.5%	.5%
"Cash Flow"	3.5%	8.5%	3.5%
Earnings	5.0%	10.5%	2.5%
Dividends	1.0%	2.0%	2.5%
Book Value	4.0%	6.5%	4.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.)A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	539.6	700.8	457.9	323.3	2021.6
2008	504.0	747.7	505.5	451.8	2209.0
2009	674.3	659.1	309.9	251.9	1895.2
2010	491.2	*550*	*350*	*248.8*	*1640*
2011	*460*	*625*	*410*	*255*	*1750*

Fiscal Year Ends	EARNINGS PER SHARE A B F Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	.89	.97	.43	.03	2.31
2008	.99	1.39	.41	d.14	2.64
2009	1.42	1.40	.31	d.22	2.92
2010	1.03	*1.30*	*.35*	*d.23*	*2.45*
2011	*1.00*	*1.41*	*.41*	*d.22*	*2.60*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.345	.355	.355	.355	1.41
2007	.365	.365	.365	.365	1.46
2008	.375	.375	.375	.375	1.50
2009	.385	.385	.385	.385	1.54
2010	.395				

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 10 other counties. Has roughly 630,000 customers. Purchased SM&P Utility Resources, 1/02; divested, 3/08. Therms sold and transported in fiscal 2009: 1.07 mill. Revenue mix for regulated operations: residential, 65%; commercial and industrial, 24%; transportation, 1%; other, 10%. Has around 1,762 employees. Officers and directors own approximately 8% of common shares (1/10 proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.thelacledegroup.com.

Laclede Group's share net plummeted 27% in the opening quarter of fiscal 2010, compared to the same period a year earlier. (Years end September 30th.) The shortfall occurred primarily because Laclede Energy Resources suffered from a substantial reduction in margins on sales of natural gas, reflecting narrower price differentials. On a positive note, results for Laclede Gas were boosted nicely by the sale of propane in the wholesale market, and, to a lesser degree, higher net investment income.

We expect more of the same during the remainder of the year. Consequently, the company's bottom line for fiscal 2010, as a whole, stands to drop about 16%, to $2.45 a share. But assuming a better performance from Laclede Energy Resources, share net may advance 6%, to $2.60, the following year. Note that our figures do not include a pending rate case (discussed below).

A rate case was filed with the Missouri Public Service Commission. Laclede seeks a net revenue increase of $52.6 million annually, to help offset the rising costs of providing natural gas service to its customers. Of course, there is no guarantee that the measure will be approved, or that the full amount requested will be received.

The company stands to register unspectacular results in the coming three to five years. The customer base for Laclede Gas will probably continue to expand at a moderate rate, since the service territory is in a mature phase. Laclede Energy Resources offers promising growth opportunities, but has contributed just a small portion to total profits on a historical basis. A major acquisition could help to offset this, but it seems that management has no such plans in the works, at this juncture.

The good-quality stock offers a generous amount of current dividend income, which is well covered by the company's earnings. But our projections indicate that additional increases in the distribution will be moderate. That is largely because of the utility's unexciting expansion prospects. Meanwhile, the shares of Laclede are ranked 5 (Lowest) for Timeliness.

Frederick L. Harris, III *March 12, 2010*

(A) Fiscal year ends Sept. 30th.
(B) Based on average shares outstanding thru. '97, then diluted. Excludes nonrecurring loss: '06, 7¢. Excludes gain from discontinued operations: '08, 94¢. Next earnings report due late April.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Incl. deferred charges. In '09: $488.3 mill., $22.03/sh.
(E) In millions.
(F) Qtly. egs. may not sum due to rounding or change in shares outstanding.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	85

NEW JERSEY RES. NYSE-NJR

RECENT PRICE	P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
37.33	14.4 (Trailing: 16.4 Median: 15.0)	0.85	3.6%	

TIMELINESS **4** Lowered 10/9/09

SAFETY **1** Raised 9/15/06

TECHNICAL **2** Raised 2/12/10

BETA .65 (1.00 = Market)

High:	18.3	19.8	21.7	22.4	26.4	29.7	32.9	35.4	37.6	41.1	42.4	38.6
Low:	14.9	16.1	16.6	16.2	20.0	24.3	27.1	27.7	30.3	24.6	30.0	33.5

Target Price Range 2013 | 2014 | 2015

2013-15 PROJECTIONS

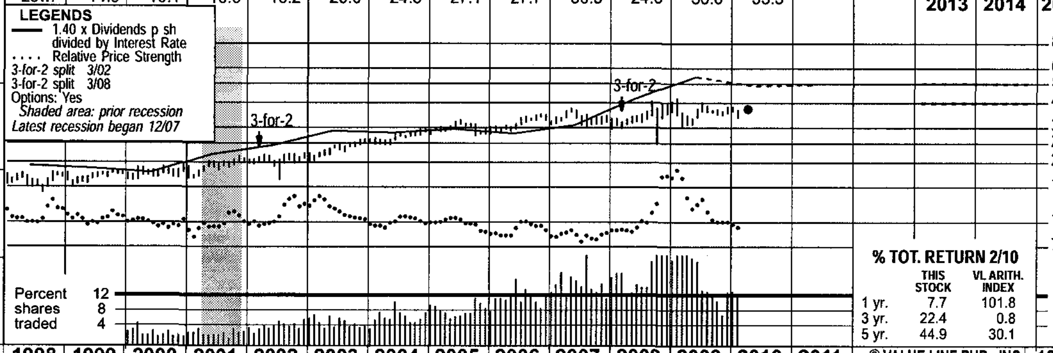
	Price	Gain	Ann'l Total Return
High	50	(+35%)	11%
Low	40	(+5%)	6%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	1	0	0	0	0	0	0	0
Options	0	0	0	0	3	0	0	0	1
to Sell	0	0	0	0	4	0	0	0	1

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	87	89	71
to Sell	88	88	76
Hld's(000)	23324	24695	24351



% TOT. RETURN 2/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	7.7	101.8
3 yr.	22.4	0.8
5 yr.	44.9	30.1

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
12.81	11.36	13.48	17.31	17.73	22.65	29.42	51.22	44.11	62.29	60.89	76.19	79.63	72.62	90.74	62.34	*65.50*	*73.15*	Revenues per sh A	*79.55*
1.54	1.42	1.48	1.63	1.74	1.86	1.99	2.12	2.14	2.38	2.50	2.62	2.73	2.44	3.62	3.16	*3.50*	*3.75*	"Cash Flow" per sh	*3.20*
.84	.86	.92	.99	1.04	1.11	1.20	1.30	1.39	1.59	1.70	1.77	1.87	1.55	2.70	2.40	*2.60*	*2.75*	Earnings per sh B	*3.20*
.68	.68	.69	.71	.73	.75	.76	.78	.80	.83	.87	.91	.96	1.01	1.11	1.24	*1.36*	*1.45*	Div'ds Decl'd per sh C■	*1.52*
1.40	1.18	1.19	1.15	1.07	1.21	1.23	1.10	1.02	1.14	1.45	1.28	1.28	1.46	1.72	1.81	*1.80*	*1.95*	Cap'l Spending per sh	*2.00*
6.43	6.47	6.73	6.92	7.26	7.57	8.29	8.80	8.71	10.26	11.25	10.60	15.00	15.50	17.28	16.59	*17.50*	*17.65*	Book Value per sh D	*19.45*
38.93	40.03	40.69	40.23	40.07	39.92	39.59	40.00	41.50	40.85	41.61	41.32	41.44	41.61	42.06	41.59	*42.00*	*41.00*	Common Shs Outst'g E	*40.00*
13.0	11.8	13.6	13.5	15.3	15.2	14.7	14.2	14.7	14.0	15.3	16.8	16.1	21.6	12.3	14.9	*Bold figures are*		Avg Ann'l P/E Ratio	*14.0*
.85	.79	.85	.78	.80	.87	.96	.73	.80	.80	.81	.89	.87	1.15	.74	.98	*Value Line*		Relative P/E Ratio	*.95*
6.2%	6.7%	5.6%	5.3%	4.6%	4.5%	4.4%	4.2%	3.9%	3.7%	3.3%	3.1%	3.2%	3.0%	3.3%	3.5%	*estimates*		Avg Ann'l Div'd Yield	*3.8%*

CAPITAL STRUCTURE as of 12/31/09
Total Debt $666.4 mill. **Due in 5 Yrs** $157.7 mill.
LT Debt $438.4 mill. **LT Interest** $15.8 mill.
Incl. $9.9 mill. capitalized leases.
(LT interest earned: 7.5x; total interest coverage: 7.5x)
Pension Assets-9/08 $100.6 mill. **Oblig.** $133.8 mill.

Pfd Stock None

Common Stock 41,417,220 shs. as of 2/2/10

MARKET CAP: $1.5 billion (Mid Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
1164.5	2048.4	1830.8	2544.4	2533.6	3148.3	3299.6	3021.8	3816.2	2592.5	*2750*	*3000*	Revenues ($mill) A	*3185*
47.9	52.3	56.8	65.4	71.6	74.4	78.5	65.3	113.9	101.0	*110*	*115*	Net Profit ($mill)	*125*
37.8%	38.0%	38.7%	39.4%	39.1%	39.1%	38.9%	38.8%	37.8%	27.1%	*30.0%*	*35.0%*	Income Tax Rate	*40.0%*
4.1%	2.6%	3.1%	2.6%	2.8%	2.4%	2.4%	2.2%	3.0%	3.9%	*4.0%*	*4.0%*	Net Profit Margin	*4.0%*
47.0%	50.1%	50.6%	38.1%	40.3%	42.0%	34.8%	37.3%	38.5%	39.8%	*41.5%*	*42.0%*	Long-Term Debt Ratio	*42.5%*
52.9%	49.9%	49.4%	61.9%	59.7%	58.0%	65.2%	62.7%	61.5%	60.2%	*58.5%*	*58.0%*	Common Equity Ratio	*57.5%*
620.1	706.2	732.4	676.8	783.8	755.3	954.0	1028.0	1182.1	1144.8	*1260*	*1250*	Total Capital ($mill)	*1350*
730.6	743.9	756.4	852.6	880.4	905.1	934.9	970.9	1017.3	1064.4	*1085*	*1100*	Net Plant ($mill)	*1150*
9.0%	8.5%	8.7%	10.7%	10.1%	11.2%	9.6%	7.7%	10.7%	9.7%	*9.5%*	*10.0%*	Return on Total Cap'l	*10.5%*
14.6%	14.8%	15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	14.6%	*15.0%*	*16.0%*	Return on Shr. Equity	*16.5%*
14.6%	14.9%	15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	14.6%	*15.0%*	*16.0%*	Return on Com Equity	*16.5%*
5.4%	6.1%	6.9%	7.7%	7.8%	8.5%	6.3%	3.6%	9.5%	7.2%	*7.0%*	*7.5%*	Retained to Com Eq	*8.5%*
63%	59%	56%	51%	49%	50%	50%	64%	40%	50%	*52%*	*52%*	All Div'ds to Net Prof	*48%*

CURRENT POSITION ($MILL.)	2008	2009	12/31/09
Cash Assets	42.6	36.2	10.3
Other	1067.1	648.0	777.9
Current Assets	1109.7	684.2	788.2
Accts Payable	61.7	44.4	34.8
Debt Due	238.3	149.9	228.0
Other	594.0	361.9	373.6
Current Liab.	894.0	556.2	636.4
Fix. Chg. Cov.	780%	711%	700%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	14.5%	6.0%	1.5%
"Cash Flow"	6.0%	5.5%	5.5%
Earnings	8.0%	7.5%	6.5%
Dividends	4.5%	6.0%	5.5%
Book Value	8.5%	10.5%	4.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	737.4	1029	662.2	593.2	3021.8
2008	811.1	1178	1000	827.1	3816.2
2009	801.3	937.5	441.1	412.6	2592.5
2010	609.6	*925*	*615.4*	*600*	*2750*
2011	*670*	*990*	*680*	*660*	*3000*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	.70	.19	.60	.06	1.55F
2008	1.31	1.86	d.10	d.39	2.70
2009	.77	1.71	.03	d.12	2.40
2010	.66	*1.85*	*.10*	*d.01*	*2.60*
2011	*.70*	*1.90*	*.15*	*Nil*	*2.75*

Cal-endar	QUARTERLY DIVIDENDS PAID C E■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.24	.24	.24	.24	.96
2007	.253	.253	.253	.253	1.01
2008	.267	.28	.28	.28	1.11
2009	.31	.31	.31	.31	1.24
2010	.34				

BUSINESS: New Jersey Resources Corp. is a holding company providing retail/wholesale energy svcs. to customers in New Jersey, and in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas had about 486,529 customers at 9/30/09 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2009 volume: 133 bill. cu. ft. (5% firm, 95% interruptible industrial and electric utility, 3% off-system and capacity release). N.J. Natural Energy subsidiary provides unregulated retail/wholesale natural gas and related energy svcs. 2009 dep. rate: 2.2%. Has 613 empls. Off./dir. own about 1.5% of common (12/09 Proxy). Chrmn., CEO, & Pres.: Laurence M. Downes. Inc.: NJ Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njresources.com.

New Jersey Resources posted lower-than-expected top-and bottom-line results for the December interim. Both the utility and nonutility operations experienced declining revenues. This stemmed from lower transportation volumes, and weak demand as a result of oversupply, particularly in the Northeast. However, strategic initiatives helped to reduce expenses and moderate the effects of diminished volumes on profitability. Those cost cuts boosted contributions from the New Jersey Natural Gas (NJNG) unit. And the mid-stream asset division got a significant boost in earnings, reflecting the commencing of operations at the Steckman Ridge facility. Still, coupled with a weak showing at the NJR Energy Services unit, the bottom line fell 14.3% during the first fiscal quarter of 2010. However,

We have left our 2010 earnings estimate unchanged for the time being. Solid contributions from NJNG as a result of new customer accounts (about 1,440 so far this year) and benefits from the Steckman Ridge storage facility are anticipated, putting our earnings target within reach. Also, we have introduced a 2011 share-net estimate of $2.75 a share.

The balance sheet is supportive. Cash reserves fell almost 72% during the December period. This was likely a result of stock and debt repurchases. Over that timeframe, the board of directors voted to increase the existing share-repurchase agreement by two million shares, bringing the total authorization to 8.75 million. Since the inception of the plan in 1996, NJR has bought back about 6.5 million shares. Meantime, the company trimmed its debt load roughly 4%. This move should help to minimize interest expenses.

These shares may appeal to income-seeking accounts, due to a recent dividend hike. Too, the top rank for Safety and high mark for Price Stability will probably appease even the most conservative investors. However, the recent sideways price movement and lackluster earnings figures have resulted in a below-average Timeliness rank. Thus, we look for NJR to lag the broader market in the year ahead. Growth in new hook-ups is still positive, but is slower than it was during last decade's real estate boom.

Bryan J. Fong *March 12, 2010*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Qtly egs may not sum to total due to change in shares outstanding. Next earnings report due late April.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Includes regulatory assets in 2009: $391.0 million, $9.21/share.
(E) In millions, adjusted for splits.
(F) Restated.

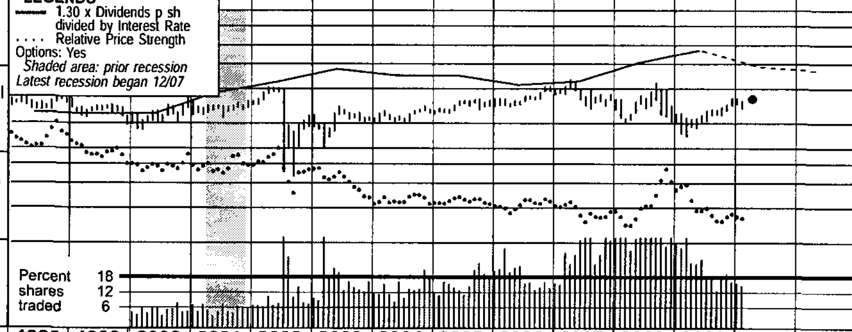
Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	45

NICOR INC. NYSE-GAS

RECENT PRICE	42.72	P/E RATIO	14.4 (Trailing: 14.4, Median: 15.0)	RELATIVE P/E RATIO	0.85	DIV'D YLD	4.4%	VALUE LINE

TIMELINESS 3 Raised 11/13/09
SAFETY 3 Lowered 6/17/05
TECHNICAL 2 Raised 2/12/10
BETA .70 (1.00 = Market)

High:	42.9	43.9	42.4	49.0	39.3	39.7	43.0	49.9	53.7	52.0	43.4	43.2
Low:	31.2	29.4	34.0	17.3	23.7	32.0	35.5	38.7	37.8	32.3	27.5	38.0



Target Price Range
2013 | 2014 | 2015
120, 100, 80, 64, 48, 32, 24, 20, 16, 12, 8

2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	65	(+50%)	14%
Low	40	(-5%)	3%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	92	105	92
to Sell	126	103	104
Hld's(000)	25772	25968	24945

% TOT. RETURN 2/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	39.6	101.8
3 yr.	3.1	0.8
5 yr.	40.6	30.1

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
31.23	29.42	37.39	41.33	30.84	34.45	50.52	57.30	43.11	60.46	62.12	76.00	65.92	69.20	83.68	58.62	*60.45*	*62.65*	Revenues per sh	*76.90*
4.11	4.19	4.97	5.29	5.21	5.59	6.16	6.41	6.03	5.37	6.00	6.19	6.82	6.96	6.85	7.32	*7.15*	*7.60*	"Cash Flow" per sh	*8.70*
2.07	1.96	2.42	2.55	2.31	2.57	2.94	3.01	2.88	2.11	2.22	2.27	2.87	2.98	2.63	2.97	*2.75*	*3.10*	Earnings per sh A	*3.30*
1.25	1.28	1.32	1.40	1.48	1.54	1.66	1.76	1.84	1.86	1.86	1.86	1.86	1.86	1.86	1.86	*1.86*	*1.86*	Div'ds Decl'd per sh B■	*1.86*
3.34	3.12	2.42	2.34	2.87	3.28	3.48	4.18	4.37	4.12	4.32	4.57	4.17	3.77	5.54	4.87	*5.80*	*6.25*	Cap'l Spending per sh	*6.80*
13.26	13.67	14.74	15.43	15.97	16.80	15.56	16.39	16.55	17.13	16.99	18.36	19.43	20.58	21.55	22.93	*23.70*	*24.95*	Book Value per sh	*29.20*
51.54	50.30	49.49	48.22	47.51	46.89	45.49	44.40	44.01	44.04	44.10	44.18	44.90	45.90	45.13	45.25	*45.50*	*45.50*	Common Shs Outst'g C	*45.50*
12.5	13.1	12.5	14.2	17.6	14.6	11.9	12.8	13.1	15.8	15.9	17.3	15.0	15.0	15.1	11.8	*Bold figures are*		Avg Ann'l P/E Ratio	*16.0*
.82	.88	.78	.82	.92	.83	.77	.66	.72	.90	.84	.92	.81	.80	.91	.78	*Value Line*		Relative P/E Ratio	*1.05*
4.8%	5.0%	4.4%	3.9%	3.6%	4.1%	4.7%	4.6%	4.9%	5.6%	5.3%	4.7%	4.3%	4.2%	4.7%	5.3%	*estimates*		Avg Ann'l Div'd Yield	*3.9%*

CAPITAL STRUCTURE as of 12/31/09
Total Debt $992.8 mill. **Due in 5 Yrs** $569.0 mill.
LT Debt $498.8 mill. **LT Interest** $6.5 mill.
(Total interest coverage: 6.1x)

Pension Assets-12/09 $364 mill. **Oblig.** $306 mill.

Pfd Stock $.1 mill. **Pfd Div'd** None

Common Stock 45,245,188 shares
as of 2/17/10
MARKET CAP: $1.9 billion (Mid Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
2298.1	2544.1	1897.4	2662.7	2739.7	3357.8	2960.0	3176.3	3776.6	2652.1	*2750*	*2850*	Revenues ($mill)	*3500*
136.4	136.3	128.0	93.1	98.1	101.1	128.3	135.2	119.5	135.5	*125*	*205*	Net Profit ($mill)	*150*
34.8%	33.5%	31.0%	35.2%	31.8%	28.3%	26.3%	26.6%	27.0%	32.5%	*27.0%*	*27.0%*	Income Tax Rate	*27.0%*
5.9%	5.4%	6.7%	3.5%	3.6%	3.0%	4.3%	4.3%	3.2%	5.1%	*4.6%*	*5.0%*	Net Profit Margin	*4.3%*
32.7%	37.8%	35.1%	39.6%	39.8%	37.4%	36.3%	30.9%	31.5%	32.4%	*32%*	*28%*	Long-Term Debt Ratio	*24%*
66.7%	61.7%	64.5%	60.3%	60.1%	62.5%	63.7%	69.0%	68.4%	67.6%	*68%*	*72%*	Common Equity Ratio	*76%*
1061.2	1180.1	1128.9	1251.5	1246.0	1297.7	1370.7	1368.0	1421.1	1535.9	*1575*	*1585*	Total Capital ($mill)	*1750*
1729.6	1768.6	1796.8	2484.2	2549.8	2659.1	2714.1	2757.3	2858.6	2939.1	*3050*	*3200*	Net Plant ($mill)	*3650*
13.7%	12.3%	12.2%	8.3%	8.8%	9.4%	10.9%	11.2%	9.7%	10.0%	*9.0%*	*10.0%*	Return on Total Cap'l	*9.5%*
19.1%	18.6%	17.5%	12.3%	13.1%	12.5%	14.7%	14.3%	12.3%	13.1%	*11.5%*	*12.5%*	Return on Shr. Equity	*11.5%*
19.2%	18.7%	17.5%	12.3%	13.1%	12.5%	14.7%	14.3%	12.3%	13.1%	*11.5%*	*12.5%*	Return on Com Equity	*11.5%*
8.5%	7.9%	6.5%	1.5%	2.1%	2.3%	5.2%	5.4%	3.6%	4.9%	*4.0%*	*5.0%*	Retained to Com Eq	*5.0%*
56%	58%	63%	88%	84%	81%	65%	62%	71%	63%	*67%*	*60%*	All Div'ds to Net Prof	*56%*

CURRENT POSITION ($MILL.)	2007	2008	12/31/09
Cash Assets	91.9	95.5	133.7
Other	931.9	1243.4	869.6
Current Assets	1023.8	1338.9	1003.3
Accts Payable	564.5	411.3	353.9
Debt Due	350.0	789.9	494.0
Other	227.9	466.8	320.2
Current Liab.	1142.4	1668.0	1168.1
Fix. Chg. Cov.	543%	461%	569%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	7.0%	5.0%	*1.5%*
"Cash Flow"	3.0%	4.0%	*3.5%*
Earnings	1.5%	3.5%	*2.5%*
Dividends	2.5%	--	*Nil*
Book Value	3.0%	5.0%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	1334.7	556.9	365.2	919.5	3176.3
2008	1595.7	699.8	440.3	1040.8	3776.6
2009	1110.8	447.6	325.6	768.1	2652.1
2010	*1125*	*465*	*340*	*820*	*2750*
2011	*1175*	*475*	*350*	*850*	*2850*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	1.04	.40	.32	1.22	2.98
2008	.91	.64	.03	1.05	2.63
2009	.96	.50	.30	1.21	2.97
2010	*.90*	*.50*	*.35*	*1.00*	*2.75*
2011	*1.00*	*.56*	*.40*	*1.14*	*3.10*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.465	.465	.465	.465	1.86
2007	.465	.465	.465	.465	1.86
2008	.465	.465	.465	.465	1.86
2009	.465	.465	.465	.465	1.86
2010					

BUSINESS: Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.2 million customers in northern and western Illinois. 2009 gas delivered: 475.9 Bcf, incl. 217.1 Bcf from transportation. 2009 gas sales (258.8 bcf): residential, 78%; commercial, 20%; industrial, 2%. Principal supplying pipelines: Natural Gas Pipeline, Horizon Pipeline, and TGPC. Current operations include Tropical Shipping subsidiary and several energy related ventures. Divested oil and gas E&P, 6/93. Has about 3,900 employees. Officers/directors own about 2.2% of common stock (3/09 proxy). Chairman and Chief Executive Officer: Russ Strobel. Incorporated: Illinois. Address: 1844 Ferry Road, Naperville, Illinois 60563. Telephone: 630-305-9500. Internet: www.nicor.com.

Nicor's gas distribution business has allowed it to sustain good bottom-line momentum. The utility reported earnings of $1.21 a share in the December period. Management attributed the better-than-expected showing to strong performances in the aforementioned business and its other energy-related operations. Moreover, the recent rate relief has provided a boost to results in recent months. What's more, the company locked in some profits through its investment in energy prices. However, the shipping segment turned in weak results due to lower volumes as a result of the weakness in the global economy. For the full year, Nicor reported share net of $2.97, which was impressive given the tough operating environment.

The Illinois Commerce Commission approved a bad debt recovery mechanism. The company implemented an instrument that allows it to annually collect the difference between its bad debt expense and a predetermined benchmark, which is payable in the following year. This year Nicor will recover $32 million for bad debt from previous years. Investors should note that we will be excluding this number from our estimates.

The company's prospects for 2010 appear subpar. We look for share net to pull back in the year ahead. The gas distribution business should continue to perform well. However, we expect the shipping business and the company's other energy-related operations to fall short of their 2009 performance. Accordingly, we estimate earnings will decline 7% to $2.75 a share. Additionally, we are introducing our share-net target for 2011. We look for the bottom line to rebound to $3.10 a share as the shipping business should improve along with the global economy.

Nicor stock offers an attractive dividend yield. Indeed, GAS' yield (4.4%) is just above average for a natural gas utility. Thus, income-oriented accounts may want to take a look here.

That said, this equity is ranked to track the market over the coming six to 12 months. What's more, it has below-average total-return potential at present. Therefore, we recommend most investors stay on the sidelines until prospects improve.

Richard Gallagher *March 12, 2010*

(A) Based on primary earnings thru. '96, then diluted. Excl. nonrecurring gains/(loss): '97, 6¢; '98, 11¢; '99, 5¢; '00, ($1.96); '01, 16¢; '03, (27¢); '04, (52¢); '05, 80¢; '06, (17¢); '07 (13¢). Excl. items from discontinued ops.: '93, 4¢; '96, 30¢. Next egs. report due late April.
(B) Dividends historically paid mid February, May, August, November. ■ Dividend reinvestment plan available. (C) In millions.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	45
Earnings Predictability	80

N.W. NAT'L GAS NYSE-NWN

RECENT PRICE **45.85** | P/E RATIO **17.0** (Trailing: 16.6, Median: 16.0) | RELATIVE P/E RATIO **1.00** | DIV'D YLD **3.7%** | **VALUE LINE**

TIMELINESS 4 Lowered 3/12/10
SAFETY 1 Raised 3/18/05
TECHNICAL 2 Raised 2/12/10
BETA .60 (1.00 = Market)

High:	27.9	27.5	26.8	30.7	31.3	34.1	39.6	43.7	52.8	55.2	46.5	46.1
Low:	19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8	39.8	37.7	37.7	41.1

Target Price Range
2013 | 2014 | 2015

2013-15 PROJECTIONS

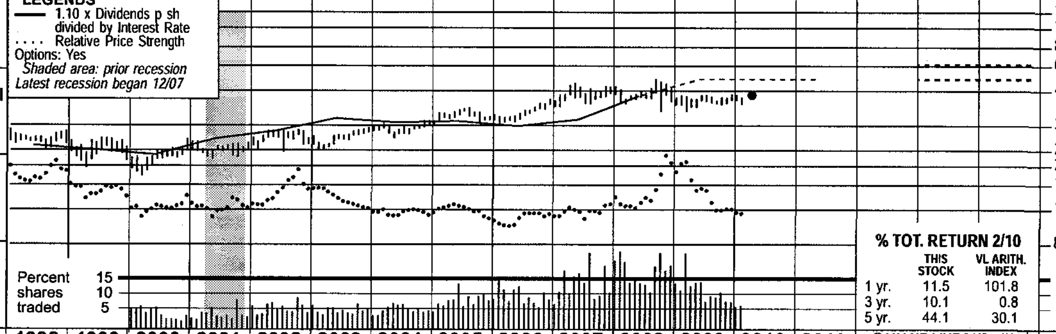
	Price	Gain	Ann'l Total Return
High	65	(+40%)	12%
Low	55	(+20%)	8%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	1
Options	0	0	0	0	0	0	0	0	2
to Sell	0	1	1	1	2	0	0	2	3

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	67	78	64
to Sell	93	69	82
Hld's(000)	15126	15387	15134



% TOT. RETURN 2/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	11.5	101.8
3 yr.	10.1	0.8
5 yr.	44.1	30.1

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	23.57	25.69	33.01	37.20	39.13	39.16	38.18	*35.85*	*35.55*	Revenues per sh	*48.20*
3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	3.85	3.92	4.34	4.76	5.41	5.31	5.12	*5.25*	*5.45*	"Cash Flow" per sh	*6.40*
1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	2.11	2.35	2.76	2.57	2.77	*2.80*	*2.95*	Earnings per sh A	*3.50*
1.17	1.18	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.32	1.39	1.44	1.52	1.60	*1.68*	*1.78*	Div'ds Decl'd per sh B■	*2.16*
4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.48	3.56	4.48	3.92	5.09	*7.70*	*6.20*	Cap'l Spending per sh	*4.50*
13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.28	22.01	22.52	23.71	24.88	*26.10*	*27.45*	Book Value per sh	*31.75*
20.13	22.24	22.56	22.86	24.85	25.09	25.23	25.23	25.59	25.94	27.55	27.58	27.24	26.41	26.50	26.53	*26.60*	*26.60*	Common Shs Outst'g C	*28.00*
13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	17.0	15.9	16.7	18.1	15.0	*Bold figures are*		Avg Ann'l P/E Ratio	*17.0*
.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	.86	.89	1.09	1.02	*Value Line*		Relative P/E Ratio	*1.15*
5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%	3.7%	3.7%	3.1%	3.3%	3.7%	*estimates*		Avg Ann'l Div'd Yield	*3.6%*
						532.1	650.3	641.4	611.3	707.6	910.5	1013.2	1033.2	1037.9	1012.7	*950*	*1025*	Revenues ($mill)	*1350*
						47.8	50.2	43.8	46.0	50.6	58.1	65.2	74.5	68.5	73.5	*74.5*	*80.0*	Net Profit ($mill)	*98.0*
						35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	36.3%	37.2%	36.9%	38.3%	*37.0%*	*37.0%*	Income Tax Rate	*37.0%*
						9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	6.4%	7.2%	6.6%	7.0%	*7.9%*	*7.8%*	Net Profit Margin	*7.3%*
						45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	46.3%	46.3%	44.9%	47.7%	*50%*	*51%*	Long-Term Debt Ratio	*50%*
						50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	53.7%	53.7%	55.1%	52.3%	*50%*	*49%*	Common Equity Ratio	*50%*
						887.8	880.5	937.3	1006.6	1052.5	1108.4	1116.5	1106.8	1140.4	1261.8	*1400*	*1500*	Total Capital ($mill)	*1800*
						934.0	965.0	995.6	1205.9	1318.4	1373.4	1425.1	1495.9	1549.1	1670.1	*1800*	*1900*	Net Plant ($mill)	*2200*
						6.7%	6.9%	5.9%	5.7%	5.9%	6.5%	7.1%	8.5%	7.7%	7.0%	*8.0%*	*8.0%*	Return on Total Cap'l	*8.0%*
						9.8%	10.0%	8.9%	9.1%	8.9%	9.9%	10.9%	12.5%	10.9%	11.1%	*11.0%*	*11.0%*	Return on Shr. Equity	*9.0%*
						10.0%	10.2%	8.5%	9.0%	8.9%	9.9%	10.9%	12.5%	10.9%	11.1%	*11.0%*	*11.0%*	Return on Com Equity	*9.0%*
						3.1%	3.5%	1.9%	2.6%	2.7%	3.7%	4.5%	6.0%	4.5%	4.7%	*4.5%*	*4.5%*	Retained to Com Eq	*3.5%*
						70%	67%	79%	72%	69%	63%	59%	52%	59%	58%	*60%*	*60%*	All Div'ds to Net Prof	*62%*

CAPITAL STRUCTURE as of 12/31/09
Total Debt $738.7 mill. **Due in 5 Yrs** $145 mill.
LT Debt $601.7 mill. **LT Interest** $34.0 mill.

(Total interest coverage: 3.9x)

Pension Assets-12/08 $201 mill.
Oblig. $308 mill.
Pfd Stock None

Common Stock 26,533,028 shares
as of 2/23/10
MARKET CAP $1.2 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	2009
Cash Assets	6.1	6.9	8.4
Other	268.8	474.1	319.8
Current Assets	274.9	481.0	328.2
Accts Payable	119.7	94.4	123.7
Debt Due	148.1	248.0	137.0
Other	122.1	208.9	131.9
Current Liab.	389.9	551.3	392.6
Fx. Chg. Cov.	408%	393%	395%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '13-'15
Revenues	9.0%	9.0%	*2.5%*
"Cash Flow"	3.5%	6.5%	*3.5%*
Earnings	5.0%	8.0%	*5.0%*
Dividends	2.0%	3.0%	*6.0%*
Book Value	3.5%	3.5%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	394.1	183.2	124.2	331.7	1033.2
2008	387.7	191.3	109.7	349.2	1037.9
2009	437.3	149.3	116.8	309.3	1012.7
2010	*375*	*135*	*110*	*330*	*950*
2011	*400*	*145*	*125*	*355*	*1025*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	1.77	.10	d.22	1.11	2.76
2008	1.62	.08	d.38	1.25	2.57
2009	1.72	.12	d.25	1.18	2.77
2010	*1.70*	*.11*	*d.29*	*1.28*	*2.80*
2011	*1.77*	*.11*	*d.27*	*1.34*	*2.95*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.345	.345	.345	.355	1.39
2007	.355	.355	.355	.375	1.44
2008	.375	.375	.375	.395	1.52
2009	.395	.395	.395	.415	1.60
2010	.415				

BUSINESS: Northwest Natural Gas Co. distributes natural gas to 90 communities, 668,000 customers, in Oregon (90% of customers) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system. Owns local underground storage. Rev. breakdown: residential, 57%; commercial, 26%; industrial, gas transportation, and other, 17%. Employs 1,061. Barclays Global owns 6.6% of shares; officers and directors, 1.4% (4/09 proxy). CEO: Gregg S. Kantor. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com.

Northwest Natural's 2009 results reflected some unusual items. The company earned $15 million pretax from its commodity cost-sharing arrangement in Oregon, under which Northwest retains some of the difference between actual and forecast gas costs, with the majority going to the rate payers. That windfall was partially offset by higher pension, healthcare, incentive bonus, and severance costs. Customer growth was just below 1% last year, compared with an average of around 3% annually for many years through 2007, as the recession flattened housing starts. All told, earnings would have been around $2.60-$2.65 a share in 2009, excluding the unusual items.

We anticipate a normal year in 2010. Thanks to much-lower natural gas prices, Northwest is lowering its residential gas prices by around 10% this year. That and the incipient economic recovery should produce better customer growth than in 2009. Operating costs should remain moderate, owing to a roughly 20% headcount reduction since 2005. Pension and bonus expenses should decline, unless the latter rises due to a very good year.

Steady growth is likely next year. We expect the recovery in customer growth and industrial gas use to continue. Polls indicate that gas is favored over electricity for home heating by a three to one margin in Portland, and returning prosperity should increase conversions to gas from other fuels. Costs should remain moderate, as last year's new union contract provides for more workforce flexibility and caps payroll and healthcare costs at 3% annually depending on inflation. Finally, the Gill Ranch gas storage project in California is scheduled to open late this year and ought to contribute to results in 2011.

A new pipeline could boost earnings noticeably by 2013-2015. Northwest owns half of the proposed Palomar pipeline, which would provide Portland a needed second source of gas. If both halves are built, the company's investment would be around $400 million. Though that would entail raising some equity, it would lift earnings beyond our forecast, which excludes the project for now.

These high-quality shares offer good risk adjusted total-return potential.

Sigourney B. Romaine *March 12, 2010*

(A) Diluted earnings per share. Excludes nonrecurring items: '98, $0.15; '00, $0.11; '06, ($0.06); '08, ($0.03); '09, 6¢. Next earnings report due early May.
(B) Dividends historically paid in mid-February, May, August, and November.
■ Dividend reinvestment plan available.
(C) In millions, adjusted for split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	90

PIEDMONT NAT'L. GAS NYSE-PNY

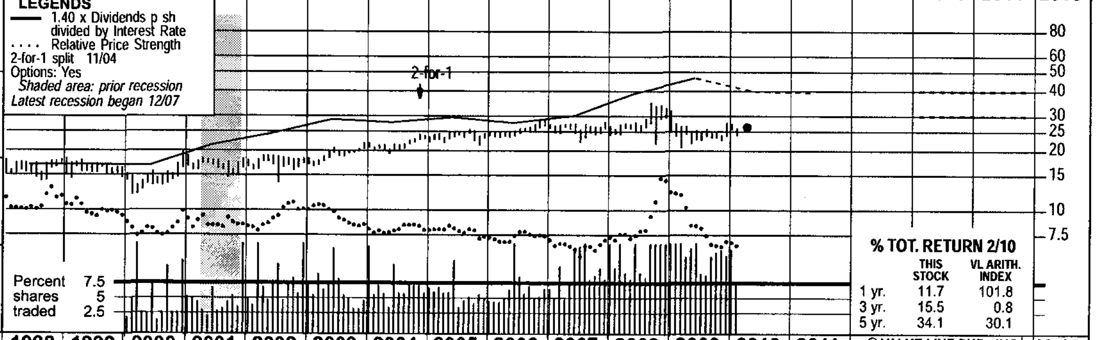
RECENT PRICE	P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	
26.38	16.0 (Trailing: 15.8 / Median: 17.0)	0.94	4.2%	VALUE LINE

TIMELINESS 3 Raised 6/15/07
SAFETY 2 New 7/27/90
TECHNICAL 2 Raised 2/12/10
BETA .65 (1.00 = Market)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High:	18.3	19.7	19.0	19.0	22.0	24.3	25.8	28.4	28.0	35.3	32.0	27.4
Low:	14.3	11.8	14.6	13.7	16.6	19.2	21.3	23.2	22.0	21.7	20.7	23.9

Target Price Range 2013 | 2014 | 2015

LEGENDS
— 1.40 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 11/04
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+50%)	15%
Low	30	(+15%)	8%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	75	78	78
to Sell	123	96	82
Hld's(000)	34611	33567	33498

% TOT. RETURN 2/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	11.7	101.8
3 yr.	15.5	0.8
5 yr.	34.1	30.1

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
10.82	8.76	11.59	12.84	12.45	10.97	13.01	17.06	12.57	18.14	19.95	22.96	25.80	23.37	28.52	22.36	*23.60*	*24.50*	Revenues per sh A	*27.75*
1.13	1.25	1.49	1.62	1.72	1.70	1.77	1.81	1.81	2.04	2.31	2.43	2.51	2.64	2.77	3.01	*2.90*	*2.95*	"Cash Flow" per sh	*3.25*
.68	.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.28	1.40	1.49	1.67	*1.65*	*1.70*	Earnings per sh AB	*1.95*
.51	.54	.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	.99	1.03	1.07	*1.11*	*1.15*	Div'ds Decl'd per sh C■	*1.27*
1.95	1.72	1.64	1.52	1.48	1.58	1.65	1.29	1.21	1.16	1.85	2.50	2.74	1.85	2.47	1.76	*.65*	*.55*	Cap'l Spending per sh	*1.45*
5.68	6.16	6.53	6.95	7.45	7.86	8.26	8.63	8.91	9.36	11.15	11.53	11.83	11.99	12.11	12.67	*12.95*	*13.40*	Book Value per sh D	*14.70*
53.15	57.67	59.10	60.39	61.48	62.59	63.83	64.93	66.18	67.31	76.67	76.70	74.61	73.23	73.26	73.27	*72.00*	*71.50*	Common Shs Outst'g E	*69.00*
15.7	13.8	13.9	13.6	16.3	17.7	14.3	16.7	18.4	16.7	16.6	17.9	19.2	18.7	18.2	15.4	*Bold figures are*		Avg Ann'l P/E Ratio	*18.0*
1.03	.92	.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95	1.04	.99	1.10	1.02	*Value Line*		Relative P/E Ratio	*1.50*
4.8%	5.4%	4.9%	4.8%	4.0%	4.1%	5.0%	4.5%	4.6%	4.4%	4.1%	3.8%	3.9%	3.8%	3.8%	4.1%	*estimates*		Avg Ann'l Div'd Yield	*3.3%*

CAPITAL STRUCTURE as of 10/31/09
Total Debt $1098.5 mill. Due in 5 Yrs $220.0 mill.
LT Debt $732.5 mill. LT Interest $55.1 mill.
(LT interest earned: 4.1x; total interest coverage: 3.5x)

Pension Assets-10/09 $184.3 mill. Oblig. $195.3 mill.

Pfd Stock None

Common Stock 73,295,803 shs. as of 12/11/09
MARKET CAP: $1.9 billion (Mid Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
830.4	1107.9	832.0	1220.8	1529.7	1761.1	1924.6	1711.3	2089.1	1638.1	*1700*	*1750*	Revenues ($mill) A	*1915*
64.0	65.5	62.2	74.4	95.2	101.3	97.2	104.4	110.0	122.8	*119*	*120*	Net Profit ($mill)	*135*
34.7%	34.6%	33.1%	34.8%	35.1%	33.7%	34.2%	33.0%	36.3%	28.5%	*35.0%*	*35.0%*	Income Tax Rate	*35.0%*
7.7%	5.9%	7.5%	6.1%	6.2%	5.8%	5.0%	6.1%	5.3%	7.5%	*7.0%*	*7.0%*	Net Profit Margin	*7.0%*
46.1%	47.6%	43.9%	42.2%	43.6%	41.4%	48.3%	48.4%	47.2%	44.1%	*44.5%*	*45.5%*	Long-Term Debt Ratio	*47.0%*
53.9%	52.4%	56.1%	57.8%	56.4%	58.6%	51.7%	51.6%	52.8%	55.9%	*55.5%*	*54.5%*	Common Equity Ratio	*53.0%*
978.4	1069.4	1051.6	1090.2	1514.9	1509.2	1707.9	1703.3	1681.5	1660.5	*1680*	*1760*	Total Capital ($mill)	*1915*
1072.0	1114.7	1158.5	1812.3	1849.8	1939.1	2075.3	2141.5	2240.8	2304.4	*2350*	*2375*	Net Plant ($mill)	*2450*
8.3%	7.9%	7.8%	8.6%	7.8%	8.2%	7.2%	7.8%	8.2%	9.1%	*8.5%*	*8.5%*	Return on Total Cap'l	*8.5%*
12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	13.2%	*13.0%*	*12.5%*	Return on Shr. Equity	*13.0%*
12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	13.2%	*13.0%*	*12.5%*	Return on Com Equity	*13.0%*
3.5%	3.0%	1.7%	3.1%	3.7%	3.6%	2.8%	3.5%	3.9%	4.8%	*4.0%*	*4.0%*	Retained to Com Eq	*5.0%*
71%	75%	83%	74%	66%	68%	74%	70%	69%	64%	*67%*	*67%*	All Div'ds to Net Prof	*65%*

CURRENT POSITION ($MILL.)

	2007	2008	10/31/09
Cash Assets	7.5	7.0	7.6
Other	427.8	593.8	505.6
Current Assets	435.3	600.8	513.2
Accts Payable	143.6	132.3	115.4
Debt Due	195.0	436.5	366.0
Other	85.9	112.7	118.8
Current Liab.	424.5	681.5	600.2
Fix. Chg. Cov.	309%	341%	316%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	7.5%	8.0%	*2.0%*
"Cash Flow"	5.5%	6.5%	*2.5%*
Earnings	5.0%	6.5%	*4.0%*
Dividends	5.0%	4.5%	*3.5%*
Book Value	5.0%	4.5%	*3.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2007	677.2	531.5	224.4	278.2	1711.3
2008	788.5	634.2	354.7	311.7	2089.1
2009	779.6	455.4	180.3	222.8	1638.1
2010	*795*	*470*	*195*	*240*	*1700*
2011	*805*	*480*	*210*	*255*	*1750*

Fiscal Year Ends	EARNINGS PER SHARE A B Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2007	.94	.69	d.12	d.11	1.40
2008	1.12	.66	d.10	d.18	1.49
2009	1.10	.73	d.10	d.06	1.67
2010	*1.15*	*.75*	*d.10*	*d.15*	*1.65*
2011	*1.16*	*.77*	*d.09*	*d.14*	*1.70*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.23	.24	.24	.24	.95
2007	.24	.25	.25	.25	.99
2008	.25	.26	.26	.26	1.03
2009	.26	.27	.27	.27	1.07
2010	.27				

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 952,469 customers in North Carolina, South Carolina, and Tennessee. 2009 revenue mix: residential (48%), commercial (28%), industrial (8%), other (16%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 65.7% of revenues. '09 deprec. rate: 3.4%. Estimated plant age: 8.4 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,821 employees. Officers & directors own about 1.3% of common stock (1/10 proxy). Chairman, CEO, & President: Thomas E. Skains. Inc.: NC. Address: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas likely posted a modest earnings advance for the first quarter of fiscal 2010 (ended January 31st). *The company was expected to issue financial results shortly after this report went to press.* Top line volumes probably advanced in the low single-digit range, thanks to additional customer accounts, and a firming up in natural gas pricing. Meantime, system throughput ought to have advanced a couple of percentage points as a result of colder-than-normal weather patterns. Margins likely continued to benefit from last year's rate-case increases in North Carolina and lower operations and maintenance expenses. On balance, profits probably rose approximately 5% over that time frame. However,

We trimmed $0.20 off our 2010 share-net estimate. PNY has proposed rate reductions for customers in North and South Carolina, due to the declining cost of wholesale gas prices. The proposal would lower residential billing rates in each state by roughly 5%. If it is passed, the new rates will have gone into effect on March 1st. Meantime, diminished contributions from the Southstar divestiture are also factored into our reduced estimates.

The company sold half of its Southstar Energy holdings. PNY received $57.5 million ($0.42 a share) from AGL Resources for a 15% stake in Southstar. That deal closed during the January interim and should provide a nice boost to cash. The downside is that earnings contributions from those holdings were starting to pick up, but due to the diminished stake, will now fall by roughly 50%.

We have introduced our 2011 revenue and earnings estimates of $1.75 billion and $1.70 a share, respectively. Continued growth in customer accounts, and the benefits from existing joint ventures should all contribute to the anticipated rebound in the top and bottom lines.

These neutrally ranked shares may appeal to income-oriented accounts. The equity offers a decent dividend yield, when compared to other utilities covered in the *Value Line Investment Survey.* Meantime, solid dividend-growth prospects, an Above-Average Safety rank (2), and a top mark for Price Stability (100) are all pluses.

Bryan J. Fong *March 12, 2010*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring charge: '97, 2¢. Next earnings report due early May. Quarters may not add to total due to change in shares outstanding.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Includes deferred charges. In 2009: $31.6 million, 43¢/share.
(E) In millions, adjusted for stock split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	95

SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE 40.49 | P/E RATIO 15.7 (Trailing: 17.0 Median: 14.0) | RELATIVE P/E RATIO 0.92 | DIV'D YLD 3.3% | VALUE LINE

TIMELINESS 3 Lowered 8/14/09

SAFETY 2 Lowered 1/4/91

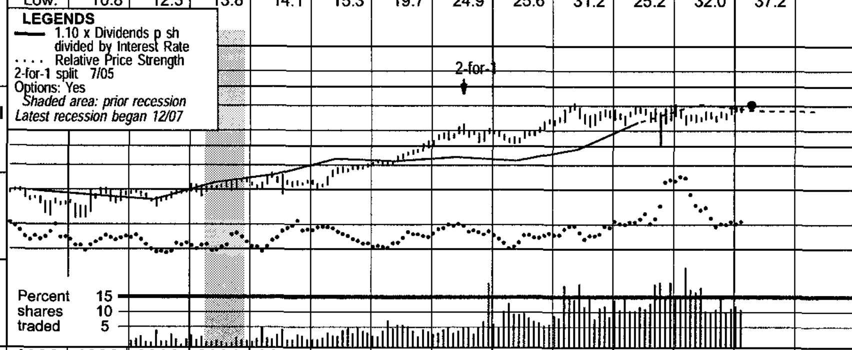
TECHNICAL 2 Raised 2/19/10

BETA .60 (1.00 = Market)

High:	15.4	15.1	17.0	18.3	20.3	26.5	32.4	34.3	41.3	40.6	40.8	40.6				
Low:	10.8	12.3	13.8	14.1	15.3	19.7	24.9	25.6	31.2	25.2	32.0	37.2				

Target Price Range 2013 | 2014 | 2015

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 7/05
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+35%)	11%
Low	40	(Nil)	4%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	1	2	0	2	0	0	0	3

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	73	70	63
to Sell	70	78	72
Hld's(000)	16545	15858	15611

% TOT. RETURN 2/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	14.5	101.8
3 yr.	26.7	0.8
5 yr.	66.9	30.1

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
17.45	16.50	16.52	16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.78	31.76	32.30	32.36	28.37	31.45	32.80	Revenues per sh	37.15
1.35	1.65	1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	3.51	3.20	3.48	3.44	3.60	3.90	"Cash Flow" per sh	4.45
.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.09	2.27	2.38	2.65	2.80	Earnings per sh A	3.30
.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	1.01	1.11	1.22	1.34	1.40	Div'ds Decl'd per sh B ■	1.60
1.93	2.08	2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	2.51	1.88	2.08	3.65	2.40	2.50	Cap'l Spending per sh	2.85
7.23	7.34	8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	15.11	16.25	17.33	18.27	19.35	20.00	Book Value per sh C	22.85
21.43	21.44	21.51	21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	29.33	29.61	29.73	29.80	31.00	32.00	Common Shs Outst'g D	35.00
16.1	12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	11.9	17.2	15.9	15.0	Bold figures are		Avg Ann'l P/E Ratio	14.0
1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	.91	.96	.99	Value Line		Relative P/E Ratio	.95
7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%	3.2%	2.8%	3.1%	3.4%	estimates		Avg Ann'l Div'd Yield	3.5%
						515.9	837.3	505.1	696.8	819.1	921.0	931.4	956.4	962.0	845.4	975	1050	Revenues ($mill)	1300
						24.7	26.8	29.4	34.6	43.0	48.6	72.0	61.8	67.7	71.1	80.0	90.0	Net Profit ($mill)	115
						43.1%	42.2%	41.4%	40.6%	40.9%	41.5%	41.3%	41.9%	47.7%	36.7%	40.0%	40.0%	Income Tax Rate	40.0%
						4.8%	3.2%	5.8%	5.0%	5.2%	5.3%	7.7%	6.5%	7.0%	8.4%	8.2%	8.6%	Net Profit Margin	8.8%
						54.1%	57.0%	53.6%	50.8%	48.7%	44.9%	44.7%	42.7%	39.2%	36.5%	40.0%	40.0%	Long-Term Debt Ratio	38.5%
						37.6%	35.9%	46.1%	49.0%	51.0%	55.1%	55.3%	57.3%	60.8%	63.5%	60.0%	60.0%	Common Equity Ratio	61.5%
						443.5	516.2	512.5	608.4	675.0	710.3	801.1	839.0	848.0	857.4	1000	1065	Total Capital ($mill)	1300
						562.2	607.0	666.6	748.3	799.9	877.3	920.0	948.9	982.6	1073.1	1075	1110	Net Plant ($mill)	1300
						7.4%	6.9%	7.6%	7.3%	7.9%	8.3%	10.1%	8.6%	8.9%	9.2%	9.0%	9.5%	Return on Total Cap'l	9.5%
						12.1%	12.1%	12.4%	11.5%	12.4%	12.4%	16.3%	12.8%	13.1%	13.1%	13.5%	14.0%	Return on Shr. Equity	14.5%
						14.8%	12.8%	12.5%	11.6%	12.5%	12.4%	16.3%	12.8%	13.1%	13.1%	13.5%	14.0%	Return on Com Equity	14.5%
						4.8%	3.5%	4.7%	5.0%	5.9%	6.2%	10.2%	6.7%	6.7%	6.4%	6.5%	7.0%	Retained to Com Eq	7.5%
						67%	76%	62%	57%	52%	50%	37%	48%	49%	51%	52%	50%	All Div'ds to Net Prof	49%

CAPITAL STRUCTURE as of 12/31/09
Total Debt $544.5 mill. Due in 5 Yrs $113.2 mill.
LT Debt $312.8 mill. LT Interest $18.0 mill.
(Total interest coverage: 5.9x)

Pension Assets-12/09 $105.9 mill. Oblig. $149.0 mill.

Pfd Stock none

Common Stock 29,812,932 common shs. as of 2/22/10

MARKET CAP: $1.2 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	12/31/09
Cash Assets	11.7	5.8	3.8
Other	316.6	429.3	364.6
Current Assets	328.3	435.1	368.4
Accts Payable	101.2	120.2	123.9
Debt Due	118.4	237.6	231.7
Other	108.7	142.1	123.2
Current Liab.	328.3	499.9	478.8
Fix. Chg. Cov.	476%	598%	585%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '13-'15
Revenues	6.0%	3.0%	2.0%
"Cash Flow"	8.5%	10.0%	4.0%
Earnings	11.5%	13.0%	5.5%
Dividends	3.5%	6.0%	6.5%
Book Value	9.0%	11.0%	5.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	368.4	171.7	156.2	260.1	956.4
2008	348.1	135.8	210.4	267.7	962.0
2009	362.2	134.5	127.1	221.6	845.4
2010	400	150	140	285	975
2011	420	160	160	310	1050

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	1.30	.21	d.05	.63	2.09
2008	1.32	.26	.04	.67	2.27
2009	1.46	.15	d.06	.83	2.38
2010	1.45	.20	.10	.90	2.65
2011	1.50	.25	.10	.95	2.80

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	--	.225	.225	.470	.92
2007	--	.245	.245	.515	1.01
2008	--	.270	.270	.568	1.11
2009	--	.298	.298	.628	1.22
2010	--				

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 340,136 customers in New Jersey's southern counties, which covers about 2,500 square miles and includes Atlantic City. Gas revenue mix '08: residential, 46%; commercial, 23%; cogeneration and electric generation, 6%; industrial, 25%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 602 employees. Off./dir. control 1.0% of com. shares; Barclays, 7.5%; Keeley Asset Management, 5.6% (3/09 proxy). Chrmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Tel.: 609-561-9000. Internet: www.sjindustries.com.

South Jersey Industries should continue to report healthy results going forward. The company appears well-positioned in the markets that it serves. Revenues and share earnings should advance at a good clip for 2010 and 2011.

Utility South Jersey Gas continues to experience modest growth in its customer base, despite softness in the housing construction market. Natural gas remains very popular in its service territory. Much of the recent growth can be attributed to conversions to natural gas from other fuel sources. SJG's recent gas main extension project in Cape May County, as well as aggressive marketing efforts in other parts of its service territory without natural gas service, have been well received. As a result, the utility expects to add over 3,000 customers from conversions this year. Elsewhere,

Performance from the company's Wholesale Energy business should also remain solid. It currently has significant gas storage capacity and pipeline capacity under management, both of which afford opportunities to lock in attractive margins resulting from volatility in market pricing. In addition, this unit ought to benefit from its position in the Marcellus Shale acreage. Leaseholder St. Mary Land & Exploration Company has already drilled two wells on SJI's property, and expects to drill two more in 2010. The company expects to begin recognizing a royalty and working interest revenue stream from these wells in the current year.

South Jersey Gas is seeking higher rates. The utility petitioned the New Jersey Board of Public Utilities for a $35 million increase (roughly 7%) in operating revenues. This marks SJG's first base rate filing in seven years. The company cited the need to recover infrastructure investments of $466 million made over the past six years. Any increase would not become effective until late 2010.

These neutrally ranked shares don't stand out at present. The issue earns high marks for Safety, Price Stability, and Earnings Predictability. But it offers below average, though fairly well-defined, total-return potential for the coming years, based on the modest bottom-line growth we envision to 2013-2015.

Michael Napoli, CFA *March 12, 2010*

(A) Based on GAAP EPS through 2006, economic earnings thereafter. GAAP EPS: '07, $2.10; '08, $2.58. Excl. nonrecur. gain (loss): '01, $0.13; '08, $0.31. Excl gain (losses) from discont. ops.: '99, ($0.02); '00, ($0.04); '01, ($0.02); '02, ($0.04); '03, ($0.09); '05, ($0.02); '06, ($0.02); '07, $0.01. Earnings may not sum due to rounding. Next egs. report due in May. (B) Div'ds paid early Apr., Jul., Oct., and late Dec. ■ Div. reinvest. plan avail. (C) Incl. regulatory assets. In 2008: $270.4 mill., $9.10 per shr. (D) In millions, adj. for split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	90
Earnings Predictability	85

SOUTHWEST GAS NYSE-SWX

RECENT PRICE	29.56	P/E RATIO	14.6 (Trailing: 14.9, Median: 19.0)	RELATIVE P/E RATIO	0.86	DIV'D YLD	3.4%	VALUE LINE

TIMELINESS 3 Raised 5/23/08

SAFETY 3 Lowered 1/4/91

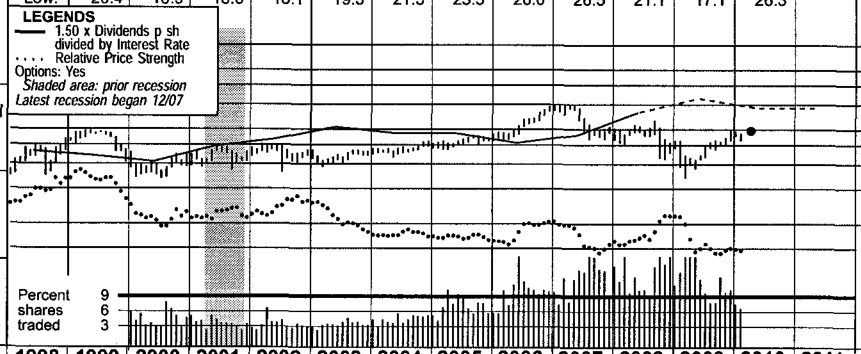
TECHNICAL 2 Raised 2/26/10

BETA .75 (1.00 = Market)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High:	29.5	23.0	24.7	25.3	23.6	26.2	28.1	39.4	39.9	33.3	29.5	29.6	
Low:	20.4	16.9	18.6	18.1	19.3	21.5	23.5	26.0	26.5	21.1	17.1	26.3	

Target Price Range

2013 | 2014 | 2015



2013-15 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+70%)	16%
Low	30	(Nil)	4%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	2	2
to Sell	0	0	1	0	3	1	1	3	3

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	83	86	73
to Sell	71	71	68
Hld's(000)	32859	32802	33100

% TOT. RETURN 2/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	52.5	101.8
3 yr.	-14.9	0.8
5 yr.	33.1	30.1

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
28.16	23.03	24.09	26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	43.59	48.47	50.28	48.53	42.00	42.95	44.70	Revenues per sh	56.00
5.09	2.65	3.00	3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	5.20	5.97	6.21	5.76	6.15	6.40	6.80	"Cash Flow" per sh	7.50
1.22	.10	.25	.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.25	1.98	1.95	1.39	1.94	2.05	2.20	Earnings per sh A	2.65
.80	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.86	.90	.95	1.00	1.05	Div'ds Decl'd per sh B■†	1.20
6.64	6.79	8.19	6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	7.49	8.27	7.96	6.79	4.80	5.65	6.40	Cap'l Spending per sh	8.50
16.38	14.55	14.20	14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	19.10	21.58	22.98	23.49	24.46	26.10	27.65	Book Value per sh	30.00
21.28	24.47	26.73	27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	39.33	41.77	42.81	44.19	45.09	46.00	47.00	Common Shs Outst'g C	50.00
14.0	NMF	NMF	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.6	15.9	17.3	20.3	12.2	Bold figures are		Avg Ann'l P/E Ratio	15.0
.92	NMF	NMF	1.39	.69	1.20	1.04	.97	1.09	1.09	.76	1.10	.86	.92	1.22	.80	Value Line		Relative P/E Ratio	1.00
4.7%	5.4%	4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%	2.6%	2.6%	3.2%	4.0%	estimates		Avg Ann'l Div'd Yield	3.0%

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
	1034.1	1396.7	1320.9	1231.0	1477.1	1714.3	2024.7	2152.1	2144.7	1893.8	1975	2100	Revenues ($mill)	2800
	38.3	37.2	38.6	38.5	58.9	48.1	80.5	83.2	61.0	87.4	95.0	110	Net Profit ($mill)	135
	26.2%	34.5%	32.8%	30.5%	34.8%	29.7%	37.3%	36.5%	40.1%	34.0%	35.0%	36.0%	Income Tax Rate	36.0%
	3.7%	2.7%	2.9%	3.1%	4.0%	2.8%	4.0%	3.9%	2.8%	4.6%	4.8%	5.2%	Net Profit Margin	4.8%
	60.2%	56.2%	62.5%	66.0%	64.2%	63.8%	60.6%	58.1%	55.3%	53.5%	51.0%	50.0%	Long-Term Debt Ratio	48.5%
	35.8%	39.6%	34.1%	34.0%	35.8%	36.2%	39.4%	41.9%	44.7%	46.5%	49.0%	50.0%	Common Equity Ratio	51.5%
	1489.9	1417.6	1748.3	1851.6	1968.6	2076.0	2287.8	2349.7	2323.3	2372.0	2450	2600	Total Capital ($mill)	2925
	1686.1	1825.6	1979.5	2175.7	2336.0	2489.1	2668.1	2845.3	2983.3	3034.5	3125	3200	Net Plant ($mill)	3600
	4.6%	5.1%	4.3%	4.2%	5.0%	4.3%	5.5%	5.5%	4.5%	5.5%	6.0%	6.0%	Return on Total Cap'l	6.5%
	6.5%	6.0%	5.9%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	7.9%	8.0%	8.5%	Return on Shr. Equity	9.0%
	7.2%	6.6%	6.5%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	7.9%	8.0%	8.5%	Return on Com Equity	9.0%
	2.4%	1.9%	1.9%	1.7%	4.3%	2.2%	5.2%	4.8%	2.1%	4.0%	4.0%	4.5%	Retained to Com Eq	5.0%
	67%	71%	70%	72%	49%	65%	42%	44%	63%	49%	48%	45%	All Div'ds to Net Prof	44%

CAPITAL STRUCTURE as of 12/31/09

Total Debt $1270.7 mill. **Due in 5 Yrs** $496.3 mill.
LT Debt $1269.4 mill. **LT Interest** $85.0 mill.
(Total interest coverage: 2.6x)

Leases, Uncapitalized Annual rentals $5.0 mill.

Pension Assets-12/09 $418.5 mill.
Oblig. $648.6 mill.

Pfd Stock None

Common Stock 45,228,164 shs.
as of 2/17/10

MARKET CAP: $1.3 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	12/31/09
Cash Assets	32.0	26.4	65.3
Other	470.5	411.7	352.3
Current Assets	502.5	438.1	417.6
Accts Payable	220.7	191.4	158.9
Debt Due	47.1	62.8	1.3
Other	260.1	255.7	314.0
Current Liab.	527.9	509.9	474.2
Fix. Chg. Cov.	229%	224%	251%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	6.0%	4.5%	2.0%
"Cash Flow"	4.5%	3.5%	4.0%
Earnings	7.0%	9.0%	8.0%
Dividends	0.5%	1.0%	5.5%
Book Value	4.5%	5.0%	4.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	793.7	426.6	371.5	560.3	2152.1
2008	813.6	447.3	374.4	509.4	2144.7
2009	689.9	387.6	317.5	498.8	1893.8
2010	715	415	335	510	1975
2011	740	440	360	560	2100

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	1.17	d.01	d.22	1.01	1.95
2008	1.14	d.06	d.38	.71	1.39
2009	1.12	d.01	d.18	1.02	1.94
2010	1.20	Nil	d.20	1.05	2.05
2011	1.25	Nil	d.15	1.10	2.20

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.205	.205	.205	.205	.82
2007	.205	.215	.215	.215	.85
2008	.215	.225	.225	.225	.89
2009	.225	.238	.238	.238	.94
2010	.238	.250			

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approximately 1.8 million customers in sections of Arizona, Nevada, and California. Comprised of two business segments: natural gas operations and construction services. 2009 margin mix: residential and small commercial, 86%; large commercial and industrial, 4%; transportation, 10%. Total throughput: 2.2 billion therms. Sold PriMerit Bank, 7/96. Has 4,450 employees. Off. & Dir. own 2.0% of common stock; T. Rowe Price Associates, Inc., 7.0%; Barclays Global Investors, 6.8%; GAMCO Investors, Inc., 6.4% (3/09 Proxy). Chairman: James J. Kropid. CEO: Jeffrey W. Shaw. Inc.: CA. Address: 5241 Spring Mountain Road, Las Vegas, Nevada 89193. Telephone: 702-876-7237. Internet: www.swgas.com.

Southwest Gas began 2010 on a sound note, despite a challenging operating environment. The bottom line should further benefit from higher rates in the company's service territories (discussed below) and improved cost controls. Modest customer growth should also help. Overall, we anticipate a moderate bottom-line advance at Southwest Gas for the current year. Growth will probably continue from 2011 onward. The company has reduced its capital expenditures, given the current low-growth environment. The southwest was one of the nation's hardest hit regions during the housing crisis. Even so, Southwest Gas continues to upgrade and expand its distribution system, and we expect investment in operations will gradually rebound in the coming years.

The company is benefiting from recent rate relief. Southwest Gas has realized higher rates in Nevada, California, and Arizona. In addition, SWX now has improved rate design in Nevada that allows it to more aggressively encourage conservation by its customers. The company's focus on procuring rate relief and improving rate design is important, as such approved revenue increases help it to cope with growth in operating expenses.

The board has recently approved a dividend increase of roughly 5%. Starting with the June payout, the quarterly dividend is now $0.25 per share. This follows other dividend hikes in recent years. We find this pattern encouraging and expect it to continue.

But the stock is not without risk. Warmer-than-usual temperatures during the winter months can hurt profitability at Southwest Gas. Also, the company will probably incur greater costs as it continues to expand operations. Moreover, insufficient, or lagging, rate relief can also hurt performance.

These shares remain neutrally ranked for year-ahead relative price performance. Looking further out, we anticipate solid bottom-line growth at the company over the pull to 2013-2015. Income-oriented accounts may find this issue's dividend growth prospects attractive. That said, total return potential for the coming years is not particularly compelling, from the present quotation.

Michael Napoli, CFA *March 12, 2010*

(A) Based on avg. shares outstand. thru. '96, then diluted. Excl. nonrec. gains (losses): '97, 16¢; '02, (10¢); '05, (11¢); '06, 7¢. Excl. loss from disc. ops.: '95, 75¢. Totals may not sum due to rounding. Next egs. report due late April/early May. (B) Dividends historically paid early March, June, September, December. ■† Div'd reinvestment and stock purchase plan avail. (C) In millions.

Company's Financial Strength	B
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	75

WGL HOLDINGS NYSE-WGL

RECENT PRICE	33.53	P/E RATIO	14.6 (Trailing: 13.7 Median: 15.0)	RELATIVE P/E RATIO	0.86	DIV'D YLD	4.4%	VALUE LINE

TIMELINESS 4 Lowered 11/27/09

SAFETY 1 Raised 4/2/93

TECHNICAL 2 Raised 2/12/10

BETA .65 (1.00 = Market)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
High:	29.4	31.5	30.5	29.5	28.8	31.4	34.8	33.6	35.9	37.1	35.5	34.5
Low:	21.0	21.8	25.3	19.3	23.2	26.7	28.8	27.0	29.8	22.4	28.6	31.0

Target Price Range
2013 | 2014 | 2015

2013-15 PROJECTIONS

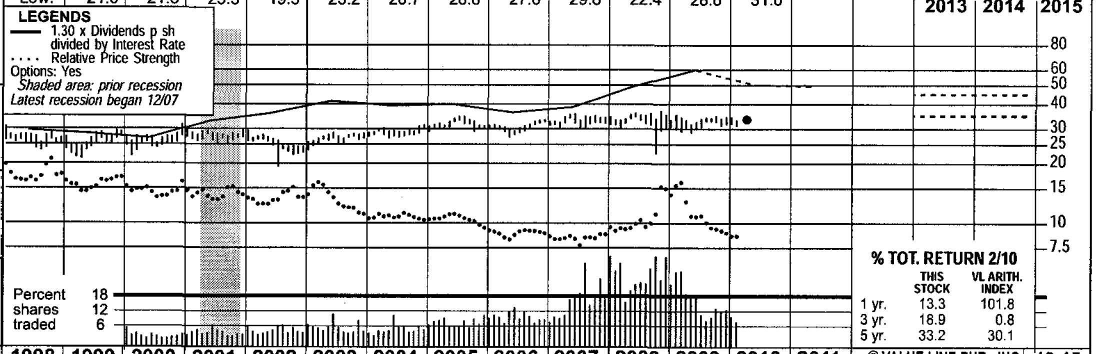
	Price	Gain	Ann'l Total Return
High	45	(+35%)	11%
Low	35	(+5%)	5%

Insider Decisions

	A	M	J	J	A	S	O	N	D
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	1	0	1
to Sell	0	2	0	0	1	0	1	1	2

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	97	85	78
to Sell	96	98	74
Hld's(000)	30919	31333	31643



% TOT. RETURN 2/10

	THIS STOCK	VL ARITH. INDEX
1 yr.	13.3	101.8
3 yr.	18.9	0.8
5 yr.	33.2	30.1

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	© VALUE LINE PUB., INC.	13-15
21.69	19.30	22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	42.93	44.94	53.96	53.51	52.65	53.98	*53.00*	*54.00*	Revenues per sh A	*57.30*
2.43	2.51	2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.87	3.97	3.84	3.89	4.34	4.44	*4.20*	*4.35*	"Cash Flow" per sh	*4.70*
1.42	1.45	1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	2.13	1.94	2.09	2.44	2.53	*2.30*	*2.45*	Earnings per sh B	*2.70*
1.11	1.12	1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	1.32	1.35	1.37	1.41	1.47	*1.51*	*1.55*	Div'ds Decl'd per sh C ■	*1.67*
2.84	2.63	2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.33	2.32	3.27	3.33	2.70	2.77	*3.00*	*2.50*	Cap'l Spending per sh	*2.50*
11.51	11.95	12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.95	17.80	18.86	19.83	20.99	21.89	*22.65*	*23.55*	Book Value per sh D	*26.75*
42.19	42.93	43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.67	48.65	48.89	49.45	49.92	50.14	*50.00*	*50.00*	Common Shs Outst'g E	*50.00*
14.0	12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	15.5	15.6	13.7	12.6	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.84	.83	.82	.83	*Value Line*		Relative P/E Ratio	*1.00*
5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%	4.5%	4.2%	4.2%	4.6%	*estimates*		Avg Ann'l Div'd Yield	*4.1%*

CAPITAL STRUCTURE as of 12/31/09
Total Debt $871.9 mill. **Due in 5 Yrs** $256.7 mill.
LT Debt $612.8 mill. **LT Interest** $40.4 mill.
(LT interest earned: 6.2x; total interest coverage: 5.7x)
Pension Assets-9/09 $550.0 mill. **Oblig.** $678.1 mill.
Preferred Stock $28.2 mill. **Pfd. Div'd** $1.3 mill.

Common Stock 50,302,721 shs. as of 1/29/10

MARKET CAP: $1.7 billion (Mid Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		13-15
1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	2637.9	2646.0	2628.2	2706.9	*2650*	*2700*	Revenues ($mill) A	*2865*
84.6	89.9	55.7	112.3	98.0	104.8	96.0	102.9	122.9	128.7	*115*	*125*	Net Profit ($mill)	*135*
36.1%	39.6%	34.0%	38.0%	38.2%	37.4%	39.0%	39.1%	37.1%	39.1%	*37.0%*	*38.0%*	Income Tax Rate	*38.0%*
8.2%	6.2%	3.5%	5.4%	4.7%	4.8%	3.6%	3.9%	4.7%	4.8%	*4.5%*	*4.5%*	Net Profit Margin	*4.8%*
43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	37.8%	37.9%	35.9%	33.3%	*36.0%*	*35.0%*	Long-Term Debt Ratio	*34.0%*
54.8%	56.3%	52.4%	54.3%	57.2%	58.6%	60.4%	60.3%	62.4%	65.0%	*62.5%*	*63.5%*	Common Equity Ratio	*64.5%*
1299.2	1400.8	1462.5	1454.9	1443.6	1478.1	1526.1	1625.4	1679.5	1687.7	*1810*	*1855*	Total Capital ($mill)	*2075*
1460.3	1519.7	1606.8	1874.9	1915.6	1969.7	2067.9	2150.4	2208.3	2269.1	*2330*	*2395*	Net Plant ($mill)	*2600*
7.9%	7.9%	5.3%	9.1%	8.2%	8.5%	7.6%	7.6%	8.5%	8.8%	*7.5%*	*8.0%*	Return on Total Cap'l	*8.0%*
11.4%	11.0%	7.0%	13.7%	11.5%	11.7%	10.1%	10.2%	11.4%	11.4%	*10.0%*	*10.5%*	Return on Shr. Equity	*10.5%*
11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	10.3%	10.4%	11.6%	11.6%	*10.5%*	*11.0%*	Return on Com Equity	*11.0%*
3.7%	3.8%	NMF	6.2%	4.1%	4.6%	3.2%	3.5%	5.0%	5.0%	*3.5%*	*4.0%*	Retained to Com Eq	*4.0%*
69%	67%	112%	56%	65%	62%	69%	66%	57%	57%	*65%*	*63%*	All Div'ds to Net Prof	*61%*

CURRENT POSITION ($MILL.)	2008	2009	12/31/09
Cash Assets	6.2	7.9	13.6
Other	736.1	675.6	852.1
Current Assets	742.3	683.5	865.7
Accts Payable	243.1	213.5	271.3
Debt Due	347.0	266.5	259.2
Other	158.4	154.6	244.5
Current Liab.	748.5	634.6	775.0
Fix. Chg. Cov.	490%	533%	535%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '13-'15
Revenues	9.0%	6.5%	*1.0%*
"Cash Flow"	4.0%	4.0%	*2.0%*
Earnings	4.0%	5.5%	*2.5%*
Dividends	1.5%	2.0%	*3.0%*
Book Value	4.0%	5.0%	*4.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	732.9	1119.9	467.5	325.7	2646.0
2008	751.6	1020.0	464.7	391.9	2628.2
2009	826.2	1040.9	427.0	412.8	2706.9
2010	727.4	*1050*	*455*	*417.6*	*2650*
2011	*740*	*1060*	*465*	*435*	*2700*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2007	.92	1.27	.22	d.31	2.10
2008	.96	1.66	.06	d.24	2.44
2009	1.03	1.65	.11	d.25	2.53
2010	1.01	*1.55*	*.05*	*d.31*	*2.30*
2011	*1.05*	*1.58*	*.07*	*d.25*	*2.45*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.333	.338	.338	.338	1.35
2007	.34	.34	.34	.34	1.36
2008	.34	.36	.36	.36	1.42
2009	.36	.37	.37	.37	1.47
2010	.37				

BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA and MD to resident'l and comm'l users (1,064,071 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and provides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. American Century Inv. own 7.7% of common stock; Off./dir. less than 1% (1/10 proxy). Chrmn. & CEO: Terry D. McCallister. Inc.: D.C. and VA. Addr.: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

WGL Holdings is off to a so-so start in fiscal 2010 (began October 1st). Revenues declined 12% in the first quarter. This stemmed from diminished volumes at the regulated utility business due to soft pricing and customer conservation. But this was partially offset by rising volumes at the non-utility operations. Meantime, the design-build unit did not make meaningful contributions to the bottom line this past quarter as profitability fell into negative territory. Still, decreases in the cost of gas minimized the bottom-line decline to roughly 2%, which was better than we had expected. Nonetheless,

For the time being, we have left our 2010 earnings estimate unchanged. We look for the top line to register a low single-digit decline this year. This ought to stem from the continued depressed natural gas prices. Still, despite weak revenue volumes, the regulated utility segment has seen a 10,300 increase in active meters over the past 12 months. Meantime, the retail energy marketing segment has been experiencing higher realized margins and more-favorable weather patterns. On balance, we expect share net to contract about 9% this year.

WGL's balance sheet and overall financial position appear to be improving. The company's cash reserves increased approximately 74% so far this year, giving way to a nice financial cushion. Meantime, the debt levels remain at easily serviceable levels.

We have introduced our 2011 top- and bottom-line estimates of $2.7 billion and $2.45 a share, respectively. The regional economy is starting to show initial signs of a recovery. As the company continues on that road, efficiency initiatives, additional customers, and clean energy programs will only help to bolster its profitability and send earnings higher.

These shares are ranked to lag the broader market in the coming year. However, the stock price has remained stable throughout the financial market turmoil and all-but-officially ended recession. This bears out its Above-Average Safety rank and high mark for Price Stability. These features, coupled with an attractive dividend yield, may appeal to conservative income-oriented accounts.

Bryan J. Fong *March 12, 2010*

(A) Fiscal years end Sept. 30th.
(B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢); '07, (4¢); '08, (14¢) discontinued operations: '06, (15¢). Qtly egs. may not sum to total, due to change in shares outstanding. Next earnings report due late April. (C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '09: $386.7 million, $7.71/sh.
(E) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	95

ATTACHMENT C

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AMERICAN STS WTR CO (NYSE)				Scottrade
AWR	34.36	▲ 0.29	(0.85%)	Vol. 44,470	14:40 ET

American States is a public utility company engaged principally in thepurchase, production, distribution and sale of water. The company alsodistributes electricity in some communities. In the customer service areas for both water and electric, rates and operations are subject to the jurisdiction of the California Public Utilities Commission.

General Information

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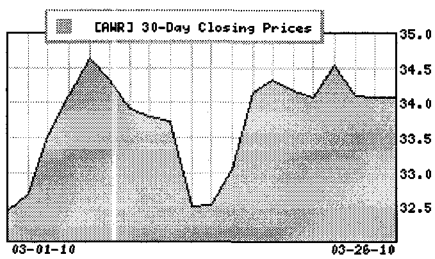
Industry	UTIL-WATER SPLY
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	05/10/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	34.07
52 Week High	37.42
52 Week Low	30.82
Beta	0.36
20 Day Moving Average	100,403.80
Target Price Consensus	39.5



% Price Change		% Price Change Relative to S&P 500	
4 Week	5.94	4 Week	0.30
12 Week	-3.78	12 Week	-8.03
YTD	-3.78	YTD	-8.03

Share Information		Dividend Information	
Shares Outstanding (millions)	18.55	Dividend Yield	3.05%
		Annual Dividend	$1.04
Market Capitalization (millions)	632.14	Payout Ratio	0.63
Short Ratio	10.23	Change in Payout Ratio	-0.02
Last Split Date	06/10/2002	Last Dividend Payout / Amount	02/10/2010 / $0.26

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.27	Current (1=Strong Buy, 5=Strong Sell)	1.80
Current Year EPS Consensus Estimate	1.88	30 Days Ago	1.80
Estimated Long-Term EPS Growth Rate	4.00	60 Days Ago	1.80
Next EPS Report Date	05/10/2010	90 Days Ago	1.80

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	18.17	vs. Previous Year	-55.00%	vs. Previous Year	2.50%
Trailing 12 Months:	20.77	vs. Previous Quarter	-66.67%	vs. Previous Quarter:	-14.97%
PEG Ratio	4.54				

Price Ratios		ROE		ROA	
Price/Book	1.75	12/31/09	8.64	12/31/09	2.70

Price/Cash Flow	9.94	09/30/09	10.03	09/30/09	3.06
Price / Sales	1.75	06/30/09	9.40	06/30/09	2.83
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	0.96	12/31/09	0.94	12/31/09	8.28
09/30/09	1.01	09/30/09	0.99	09/30/09	9.34
06/30/09	1.10	06/30/09	1.08	06/30/09	8.83
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	13.39	12/31/09	13.39	12/31/09	19.42
09/30/09	12.57	09/30/09	12.57	09/30/09	19.45
06/30/09	10.59	06/30/09	10.59	06/30/09	19.31
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	52.94	12/31/09	0.85	12/31/09	45.97
09/30/09	49.80	09/30/09	0.85	09/30/09	45.99
06/30/09	51.08	06/30/09	0.87	06/30/09	46.39

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CALIFORNIA WTR SVC GROUP (NYSE)

CWT	37.30	▲0.49	(1.33%)	Vol. 71,437	14:42 ET

California Water Service Company's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation, and billing and meter reading services.

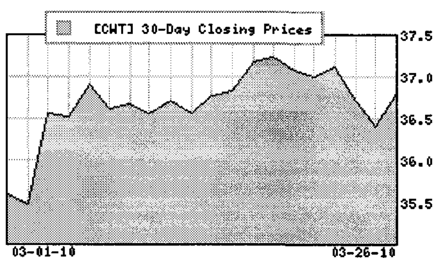
General Information

CALIF WATER SVC
1720 North First Street
San Jose, CA 95112
Phone: 408 367-8200
Fax: 408 437-9185
Web: www.calwatergroup.com
Email: klichtenberg@calwater.com

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	04/28/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	36.81
52 Week High	42.85
52 Week Low	33.49
Beta	0.37
20 Day Moving Average	100,958.70
Target Price Consensus	42.8



% Price Change		% Price Change Relative to S&P 500	
4 Week	2.59	4 Week	-2.87
12 Week	-0.03	12 Week	-4.44
YTD	-0.03	YTD	-4.44

Share Information		Dividend Information	
Shares Outstanding (millions)	20.76	Dividend Yield	3.23%
		Annual Dividend	$1.19
Market Capitalization (millions)	764.36	Payout Ratio	0.61
Short Ratio	6.69	Change in Payout Ratio	-0.14
Last Split Date	01/26/1998	Last Dividend Payout / Amount	02/04/2010 / $0.30

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.11	Current (1=Strong Buy, 5=Strong Sell)	1.50
Current Year EPS Consensus Estimate	2.00	30 Days Ago	1.50
Estimated Long-Term EPS Growth Rate	6.70	60 Days Ago	1.50
Next EPS Report Date	04/28/2010	90 Days Ago	1.50

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	18.44	vs. Previous Year	-11.43%	vs. Previous Year	6.81%
Trailing 12 Months:	18.88	vs. Previous Quarter	-67.02%	vs. Previous Quarter:	-23.17%
PEG Ratio	2.77				

Price Ratios		ROE		ROA	
Price/Book	1.82	12/31/09	9.86	12/31/09	2.70
Price/Cash Flow	9.18	09/30/09	10.18	09/30/09	2.81
Price / Sales	1.70	06/30/09	10.94	06/30/09	3.12
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	0.84	12/31/09	0.79	12/31/09	9.02
09/30/09	1.07	09/30/09	1.03	09/30/09	9.36
06/30/09	1.23	06/30/09	1.18	06/30/09	10.12
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	14.55	12/31/09	14.55	12/31/09	20.28
09/30/09	15.31	09/30/09	15.31	09/30/09	20.22
06/30/09	16.26	06/30/09	16.26	06/30/09	19.56
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	33.46	12/31/09	0.89	12/31/09	47.08
09/30/09	38.77	09/30/09	0.89	09/30/09	47.10
06/30/09	38.87	06/30/09	0.95	06/30/09	48.59

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AQUA AMERICA INC (NYSE) Scottrade

WTR	17.35	▲0.15	(0.87%)	Vol. 502,127	14:43 ET

Aqua America is the largest publicly-traded U.S.-based water utility serving residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.

General Information

AQUA AMER INC
762 W Lancaster Avenue
Bryn Mawr, PA 19010-3489
Phone: 610 527-8000
Fax: 610-645-1061
Web: www.suburbanwater.com
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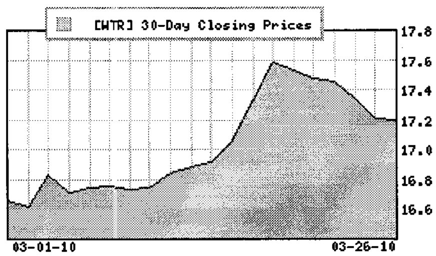
Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	05/11/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	17.20
52 Week High	20.37
52 Week Low	15.39
Beta	0.18
20 Day Moving Average	725,876.25
Target Price Consensus	22.17



% Price Change		% Price Change Relative to S&P 500	
4 Week	0.47	4 Week	-4.88
12 Week	-1.77	12 Week	-6.11
YTD	-1.77	YTD	-6.11

Share Information		Dividend Information	
Shares Outstanding (millions)	136.68	Dividend Yield	3.37%
		Annual Dividend	$0.58
Market Capitalization (millions)	2,350.90	Payout Ratio	0.74
Short Ratio	20.67	Change in Payout Ratio	0.08
Last Split Date	12/02/2005	Last Dividend Payout / Amount	02/11/2010 / $0.14

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.16	Current (1=Strong Buy, 5=Strong Sell)	1.67
Current Year EPS Consensus Estimate	0.88	30 Days Ago	1.62
Estimated Long-Term EPS Growth Rate	8.00	60 Days Ago	1.62
Next EPS Report Date	05/11/2010	90 Days Ago	1.62

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	19.57	vs. Previous Year	5.26%	vs. Previous Year	5.04%
Trailing 12 Months:	22.05	vs. Previous Quarter	-20.00%	vs. Previous Quarter:	-7.15%
PEG Ratio	2.45				

Price Ratios		ROE		ROA	

Price/Book	2.11	12/31/09	9.64	12/31/09	2.90
Price/Cash Flow	10.69	09/30/09	9.66	09/30/09	2.93
Price / Sales	3.51	06/30/09	9.95	06/30/09	3.04
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	0.60	12/31/09	0.56	12/31/09	15.56
09/30/09	0.54	09/30/09	0.50	09/30/09	15.60
06/30/09	0.60	06/30/09	0.55	06/30/09	15.97
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	25.68	12/31/09	25.68	12/31/09	8.14
09/30/09	25.72	09/30/09	25.72	09/30/09	7.93
06/30/09	26.47	06/30/09	26.47	06/30/09	7.94
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	27.81	12/31/09	1.25	12/31/09	55.55
09/30/09	40.79	09/30/09	1.17	09/30/09	54.00
06/30/09	39.75	06/30/09	1.14	06/30/09	53.25

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AGL RESOURCES INC (NYSE)					Scottrade
AGL	38.35	▲0.35	(0.92%)	Vol. 133,800	14:49 ET

AGL Resources principal business is the distribution of natural gas to customers in central, northwest, northeast and southeast Georgia and the Chattanooga, Tennessee area through its natural gas distribution subsidiary. AGL's major service area is the ten county metropolitan Atlanta area.

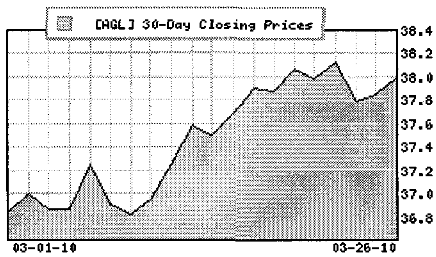
General Information

AGL RESOURCES
Ten Peachtree Place NE
Atlanta, GA 30309
Phone: 404 584-4000
Fax: 404 584-3945
Web: www.aglresources.com
Email: scave@aglresources.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	04/28/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	38.00
52 Week High	38.48
52 Week Low	26.00
Beta	0.42
20 Day Moving Average	184,215.00
Target Price Consensus	38.29



% Price Change		% Price Change Relative to S&P 500	
4 Week	4.60	4 Week	-0.97
12 Week	4.20	12 Week	-0.40
YTD	4.20	YTD	-0.40

Share Information		Dividend Information	
Shares Outstanding (millions)	78.01	Dividend Yield	4.63%
		Annual Dividend	$1.76
Market Capitalization (millions)	2,964.38	Payout Ratio	0.60
Short Ratio	3.05	Change in Payout Ratio	0.01
Last Split Date	12/04/1995	Last Dividend Payout / Amount	02/17/2010 / $0.44

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.52	Current (1=Strong Buy, 5=Strong Sell)	2.11
Current Year EPS Consensus Estimate	2.98	30 Days Ago	2.11
Estimated Long-Term EPS Growth Rate	4.50	60 Days Ago	2.11
Next EPS Report Date	04/28/2010	90 Days Ago	2.11

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	12.75	vs. Previous Year	-5.15%	vs. Previous Year	-20.75%
Trailing 12 Months:	13.15	vs. Previous Quarter	475.00%	vs. Previous Quarter:	107.82%
PEG Ratio	2.83				

Price Ratios		ROE		ROA	
Price/Book	1.62	12/31/09	12.53	12/31/09	3.48
Price/Cash Flow		09/30/09		09/30/09	

	7.74		13.00		3.58
Price / Sales	1.28	06/30/09	13.60	06/30/09	3.68
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	1.13	12/31/09	0.75	12/31/09	9.58
09/30/09	1.26	09/30/09	0.64	09/30/09	9.06
06/30/09	1.03	06/30/09	0.61	06/30/09	8.63
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	16.57	12/31/09	16.57	12/31/09	23.50
09/30/09	15.30	09/30/09	15.30	09/30/09	22.61
06/30/09	17.12	06/30/09	17.12	06/30/09	22.79
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	2.98	12/31/09	1.09	12/31/09	52.04
09/30/09	3.70	09/30/09	1.13	09/30/09	53.06
06/30/09	3.70	06/30/09	0.95	06/30/09	48.78

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ATMOS ENERGY CORP (NYSE)

ATO	28.41	0.10	(0.35%)	Vol. 314,868	15:03 ET

Atmos Energy Corporation distributes and sells natural gas to residential, commercial, industrial, agricultural and other customers. Atmos operates through five divisions in cities, towns and communities in service areas located in Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Missouri, South Carolina, Tennessee, Texas and Virginia. The Company has entered into an agreement to sell all of its natural gas utility operations in South Carolina. The Company also transports natural gas for others through its distribution system.

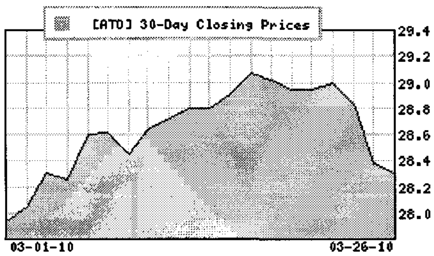
General Information

ATMOS ENERGY CP
Three Lincoln Centre 5430 Lbj Freeway
Suite 1800
Dallas, TX 75240
Phone: 972-934-9227
Fax: 972-855-3040
Web: www.atmosenergy.com
Email: InvestorRelations@atmosenergy.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	September
Last Reported Quarter	12/31/09
Next EPS Date	04/22/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	28.31
52 Week High	30.32
52 Week Low	22.52
Beta	0.51
20 Day Moving Average	285,066.91
Target Price Consensus	30.42



% Price Change		% Price Change Relative to S&P 500	
4 Week	3.10	4 Week	-2.39
12 Week	-3.71	12 Week	-7.96
YTD	-3.71	YTD	-7.96

Share Information		Dividend Information	
Shares Outstanding (millions)	92.93	Dividend Yield	4.73%
		Annual Dividend	$1.34
Market Capitalization (millions)	2,630.91	Payout Ratio	0.71
Short Ratio	3.16	Change in Payout Ratio	0.06
Last Split Date	05/17/1994	Last Dividend Payout / Amount	02/23/2010 / $0.34

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.40	Current (1=Strong Buy, 5=Strong Sell)	2.50
Current Year EPS Consensus Estimate	2.19	30 Days Ago	2.50
Estimated Long-Term EPS Growth Rate	5.00	60 Days Ago	2.50
Next EPS Report Date	04/22/2010	90 Days Ago	2.67

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	12.96	vs. Previous Year	-14.46%	vs. Previous Year	-24.67%
Trailing 12 Months:	14.90	vs. Previous Quarter	987.50%	vs. Previous Quarter:	98.72%
PEG Ratio	2.59				

Price Ratios		ROE		ROA	
Price/Book	1.17	12/31/09	7.98	12/31/09	2.70
Price/Cash Flow	6.34	09/30/09	8.58	09/30/09	2.85
Price / Sales	0.58	06/30/09	9.14	06/30/09	2.99
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	1.09	12/31/09	0.75	12/31/09	3.86
09/30/09	1.12	09/30/09	0.65	09/30/09	3.72
06/30/09	1.24	06/30/09	0.74	06/30/09	3.37
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	7.02	12/31/09	7.02	12/31/09	24.30
09/30/09	5.86	09/30/09	5.86	09/30/09	23.59
06/30/09	5.55	06/30/09	5.55	06/30/09	23.82
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	10.50	12/31/09	0.96	12/31/09	48.88
09/30/09	10.42	09/30/09	1.00	09/30/09	49.92
06/30/09	11.62	06/30/09	0.99	06/30/09	49.75

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LACLEDE GROUP INC (NYSE)

LG	33.66	▲0.22	(0.66%)	Vol. 33,227	14:58 ET

The Laclede Group, Inc. is a public utility engaged in the retail distribution and transportation of natural gas. The Company, which is subject to the jurisdiction of the Missouri Public Service Commission, serves the City of St. Louis, St. Louis County, the City of St. Charles, St. Charles County, the town of Arnold, and parts of Franklin, Jefferson, St. Francois, Ste. Genevieve, Iron, Madison and Butler Counties, all in Missouri.

General Information

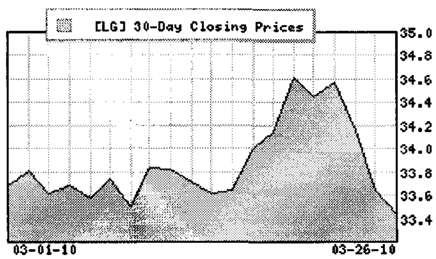
LACLEDE GRP INC
720 Olive Street
St. Louis, MO 63101
Phone: 314-342-0500
Fax: 314-421-1979
Web: www.thelacledegroup.com
Email: mkullman@lacledegas.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	September
Last Reported Quarter	12/31/09
Next EPS Date	04/22/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	33.44
52 Week High	39.90
52 Week Low	29.26
Beta	0.04
20 Day Moving Average	118,960.35
Target Price Consensus	35



% Price Change		% Price Change Relative to S&P 500	
4 Week	1.98	4 Week	-3.45
12 Week	-0.98	12 Week	-5.35
YTD	-0.98	YTD	-5.35

Share Information		Dividend Information	
Shares Outstanding (millions)	22.26	Dividend Yield	4.72%
		Annual Dividend	$1.58
Market Capitalization (millions)	744.44	Payout Ratio	0.63
Short Ratio	7.19	Change in Payout Ratio	0.01
Last Split Date	03/08/1994	Last Dividend Payout / Amount	03/09/2010 / $0.40

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.31	Current (1=Strong Buy, 5=Strong Sell)	3.00
Current Year EPS Consensus Estimate	2.48	30 Days Ago	3.00
Estimated Long-Term EPS Growth Rate	3.00	60 Days Ago	2.80
Next EPS Report Date	04/22/2010	90 Days Ago	2.80

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.48	vs. Previous Year	-27.46%	vs. Previous Year	-27.15%
Trailing 12 Months:	13.27	vs. Previous Quarter	568.18%	vs. Previous Quarter:	94.96%
PEG Ratio	4.49				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.40	12/31/09	10.57	12/31/09	3.16

Price/Cash Flow	7.32	09/30/09	12.30	09/30/09	3.63
Price / Sales	0.43	06/30/09	12.78	06/30/09	3.71
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	1.17	12/31/09	0.90	12/31/09	3.26
09/30/09	1.23	09/30/09	0.84	09/30/09	3.39
06/30/09	1.24	06/30/09	0.98	06/30/09	3.14
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	4.89	12/31/09	4.89	12/31/09	23.89
09/30/09	5.11	09/30/09	5.11	09/30/09	23.32
06/30/09	4.81	06/30/09	4.81	06/30/09	23.97
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	13.49	12/31/09	0.69	12/31/09	40.66
09/30/09	11.80	09/30/09	0.75	09/30/09	42.95
06/30/09	10.65	06/30/09	0.73	06/30/09	42.30

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NEW JERSEY RES (NYSE)

Scottrade

NJR	37.86	0.33	(0.88%)	Vol. 109,233	15:03 ET

NJ RESOURCES is an exempt energy svcs holding company providing retail & wholesale natural gas & related energy services to customers from the Gulf Coast to New England. Subsidiaries include: (1) N J Natural Gas Co, a natural gas distribution company that provides regulated energy & appliance services to residential, commercial & industrial customers in central & northern N J. (2) NJR Energy Holdings Corp formerly NJR Energy Svcs Corp & (3) NJR Development Corp, a sub-holding company of NJR, which includes the Company's remaining unregulated operating subsidiaries.

General Information

NJ RESOURCES
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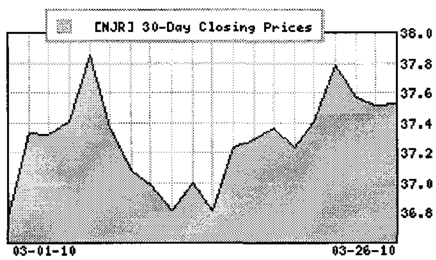
Wall, NJ 07719
Phone: 732-938-1489
Fax: 732 938-3154
Web: www.njresources.com
Email: investcont@njresources.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	September
Last Reported Quarter	12/31/09
Next EPS Date	04/28/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	37.53
52 Week High	40.61
52 Week Low	30.79
Beta	0.13
20 Day Moving Average	217,149.59
Target Price Consensus	42.67



% Price Change		% Price Change Relative to S&P 500	
4 Week	3.05	4 Week	-2.44
12 Week	0.35	12 Week	-4.08
YTD	0.35	YTD	-4.08

Share Information		Dividend Information	
Shares Outstanding (millions)	41.42	Dividend Yield	3.62%
		Annual Dividend	$1.36
Market Capitalization (millions)	1,554.38	Payout Ratio	0.60
Short Ratio	9.23	Change in Payout Ratio	0.08
Last Split Date	03/04/2008	Last Dividend Payout / Amount	03/11/2010 / $0.34

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.86	Current (1=Strong Buy, 5=Strong Sell)	1.64
Current Year EPS Consensus Estimate	2.52	30 Days Ago	1.64
Estimated Long-Term EPS Growth Rate	7.00	60 Days Ago	1.67
Next EPS Report Date	04/28/2010	90 Days Ago	1.67

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.88	vs. Previous Year	-14.47%	vs. Previous Year	-23.93%
Trailing 12 Months:	16.61	vs. Previous Quarter	641.67%	vs. Previous Quarter:	47.74%
PEG Ratio	2.13				

Price Ratios		**ROE**		**ROA**	
Price/Book	2.16	12/31/09	13.27	12/31/09	4.05
Price/Cash Flow	11.94	09/30/09	13.90	09/30/09	4.15
Price / Sales	0.65	06/30/09	12.20	06/30/09	3.58
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	1.24	12/31/09	0.71	12/31/09	3.99
09/30/09	1.23	09/30/09	0.68	09/30/09	3.89
06/30/09	1.23	06/30/09	0.88	06/30/09	2.98
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	4.00	12/31/09	4.00	12/31/09	17.39
09/30/09	1.21	09/30/09	1.21	09/30/09	16.42
06/30/09	5.66	06/30/09	5.66	06/30/09	17.11
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	9.39	12/31/09	0.61	12/31/09	37.75
09/30/09	10.06	09/30/09	0.66	09/30/09	39.77
06/30/09	9.78	06/30/09	0.63	06/30/09	38.82

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NICOR INC (NYSE)

Scottrade

GAS	42.25	▲0.21	(0.50%)	Vol. 333,478	15:03 ET

Nicor Inc. is a holding company and is a member of the Standard & Poor's 500 Index. Its primary business is Nicor Gas, one of the nation's largest natural gas distribution companies. Nicor owns Tropical Shipping, a containerized shipping business serving the Caribbean region and the Bahamas. In addition, the company owns and has an equity interest in several energy-related businesses.

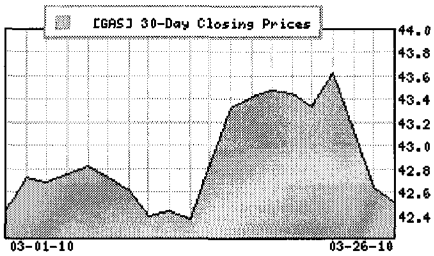
General Information

NICOR INC
1844 Ferry Road
Naperville, IL 60563-9600
Phone: 630-305-9500
Fax: 630-983-9328
Web: www.nicor.com
Email: None

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	04/23/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	42.04
52 Week High	43.75
52 Week Low	30.28
Beta	0.38
20 Day Moving Average	358,605.50
Target Price Consensus	41.4



% Price Change		% Price Change Relative to S&P 500	
4 Week	2.06	4 Week	-3.37
12 Week	0.97	12 Week	-3.48
YTD	0.97	YTD	-3.48

Share Information		Dividend Information	
Shares Outstanding (millions)	45.24	Dividend Yield	4.38%
		Annual Dividend	$1.86
Market Capitalization (millions)	1,923.36	Payout Ratio	0.63
Short Ratio	6.06	Change in Payout Ratio	-0.08
Last Split Date	04/27/1993	Last Dividend Payout / Amount	12/29/2009 / $0.47

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.34	Current (1=Strong Buy, 5=Strong Sell)	3.13
Current Year EPS Consensus Estimate	3.05	30 Days Ago	3.13
Estimated Long-Term EPS Growth Rate	3.70	60 Days Ago	3.13
Next EPS Report Date	04/23/2010	90 Days Ago	2.86

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.96	vs. Previous Year	15.24%	vs. Previous Year	-26.20%
Trailing 12 Months:	14.31	vs. Previous Quarter	303.33%	vs. Previous Quarter:	135.90%
PEG Ratio	3.81				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.85	12/31/09	13.40	12/31/09	3.11

Price/Cash Flow	5.80	09/30/09	12.88	09/30/09	2.88
Price / Sales	0.73	06/30/09	11.78	06/30/09	2.59
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	0.86	12/31/09	0.74	12/31/09	5.11
09/30/09	0.81	09/30/09	0.62	09/30/09	4.38
06/30/09	0.76	06/30/09	0.73	06/30/09	3.81
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	7.56	12/31/09	7.56	12/31/09	22.94
09/30/09	6.32	09/30/09	6.32	09/30/09	22.13
06/30/09	5.46	06/30/09	5.46	06/30/09	22.25
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	17.32	12/31/09	0.48	12/31/09	32.44
09/30/09	15.60	09/30/09	0.50	09/30/09	33.24
06/30/09	14.05	06/30/09	0.50	06/30/09	33.12

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NORTHWEST NAT GAS CO (NYSE)

Scottrade

NWN	47.06	0.64	(1.38%)	Vol. 45,622	15:06 ET

NW Natural is principally engaged in the distribution of natural gas.The Oregon Public Utility Commission (OPUC) has allocated to NW Natural as its exclusive service area a major portion of western Oregon, including the Portland metropolitan area, most of the fertile Willamette Valley and the coastal area from Astoria to Coos Bay. NW Natural also holds certificates from the Washington Utilities and Transportation Commission (WUTC) granting it exclusive rights to serve portions of three Washington counties bordering the Columbia River.

General Information

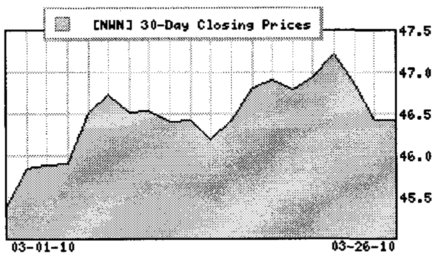
NORTHWEST NAT G
220 NW Second Avenue
Portland, OR 97209
Phone: 503 226-4211
Fax: 503 273-4824
Web: www.nwnatural.com
Email: Bob.Hess@nwnatural.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	04/23/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	46.42
52 Week High	47.34
52 Week Low	39.58
Beta	0.25
20 Day Moving Average	98,283.05
Target Price Consensus	49.5



% Price Change

4 Week	5.52
12 Week	3.06
YTD	3.06

% Price Change Relative to S&P 500

4 Week	-0.09
12 Week	-1.49
YTD	-1.49

Share Information

Shares Outstanding (millions)	26.53
Market Capitalization (millions)	1,231.66
Short Ratio	20.31
Last Split Date	09/09/1996

Dividend Information

Dividend Yield	3.58%
Annual Dividend	$1.66
Payout Ratio	0.58
Change in Payout Ratio	-0.01
Last Dividend Payout / Amount	01/27/2010 / $0.41

EPS Information

Current Quarter EPS Consensus Estimate	1.75
Current Year EPS Consensus Estimate	2.70
Estimated Long-Term EPS Growth Rate	5.70
Next EPS Report Date	04/23/2010

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	1.86
30 Days Ago	1.86
60 Days Ago	1.86
90 Days Ago	1.86

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	17.19	vs. Previous Year	-5.60%	vs. Previous Year	-11.39%
Trailing 12 Months:	16.34	vs. Previous Quarter	572.00%	vs. Previous Quarter:	164.81%
PEG Ratio	3.03				

Price Ratios **ROE** **ROA**

Price/Book	1.86	12/31/09	11.46	12/31/09	3.25
Price/Cash Flow	8.92	09/30/09	11.87	09/30/09	3.33
Price / Sales	1.22	06/30/09	11.51	06/30/09	3.26
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	0.84	12/31/09	0.63	12/31/09	7.42
09/30/09	1.03	09/30/09	0.69	09/30/09	7.31
06/30/09	0.94	06/30/09	0.67	06/30/09	7.03
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	12.03	12/31/09	12.03	12/31/09	24.89
09/30/09	11.71	09/30/09	11.71	09/30/09	24.17
06/30/09	11.19	06/30/09	11.19	06/30/09	24.80
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	8.47	12/31/09	0.91	12/31/09	47.69
09/30/09	9.12	09/30/09	0.99	09/30/09	49.85
06/30/09	8.96	06/30/09	0.89	06/30/09	47.18

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PIEDMONT NAT GAS INC (NYSE)

Scottrade

PNY	27.15	▲0.02	(0.07%)	Vol. 232,056	15:06 ET

Piedmont Natural Gas Co, Inc., is an energy and services company engaged in the transportation and sale of natural gas and the sale of propane to residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. The Company is the second-largest natural gas utility in the southeast. The Company and its non-utility subsidiaries and divisions are also engaged in acquiring, marketing and arranging for the transportation and storage of natural gas for large-volume purchasers, and in the sale of propane to customers in the Company's three-state service area.

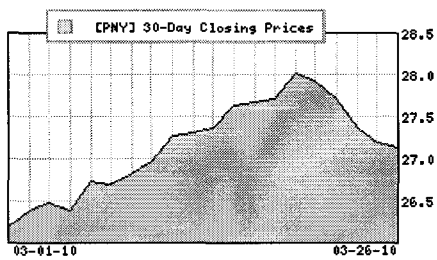
General Information

PIEDMONT NAT GA
4720 Piedmont Row Drive
Charlotte, NC 28210
Phone: 704 364-3120
Fax: 704-365-3849
Web: www.piedmontng.com
Email: investorrelations@piedmontng.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	October
Last Reported Quarter	01/31/10
Next EPS Date	06/04/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	27.13
52 Week High	28.04
52 Week Low	21.65
Beta	0.21
20 Day Moving Average	266,102.41
Target Price Consensus	26.71



% Price Change		% Price Change Relative to S&P 500	
4 Week	5.03	4 Week	-0.56
12 Week	1.42	12 Week	-3.06
YTD	1.42	YTD	-3.06

Share Information		Dividend Information	
Shares Outstanding (millions)	73.38	Dividend Yield	4.13%
		Annual Dividend	$1.12
Market Capitalization (millions)	1,990.80	Payout Ratio	0.63
Short Ratio	13.35	Change in Payout Ratio	-0.07
Last Split Date	11/01/2004	Last Dividend Payout / Amount	03/23/2010 / $0.28

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.72	Current (1=Strong Buy, 5=Strong Sell)	2.86
Current Year EPS Consensus Estimate	1.59	30 Days Ago	2.88
Estimated Long-Term EPS Growth Rate	6.30	60 Days Ago	2.88
Next EPS Report Date	06/04/2010	90 Days Ago	2.57

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	17.06	vs. Previous Year	3.64%	vs. Previous Year	-13.58%
Trailing 12 Months:	15.86	vs. Previous Quarter	2,000.00%	vs. Previous Quarter:	202.34%
PEG Ratio	2.69				

Price Ratios		ROE		ROA	
Price/Book	2.01	01/31/10	13.10	01/31/10	4.03
Price/Cash Flow	8.81	10/31/09	12.94	10/31/09	3.92
Price / Sales	1.30	07/31/09	12.13	07/31/09	3.64
Current Ratio		**Quick Ratio**		**Operating Margin**	
01/31/10	0.95	01/31/10	0.78	01/31/10	8.20
10/31/09	0.85	10/31/09	0.67	10/31/09	7.50
07/31/09	0.99	07/31/09	0.76	07/31/09	6.59
Net Margin		**Pre-Tax Margin**		**Book Value**	
01/31/10	16.91	01/31/10	16.91	01/31/10	13.53
10/31/09	12.50	10/31/09	12.50	10/31/09	12.69
07/31/09	12.89	07/31/09	12.89	07/31/09	12.99
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
01/31/10	10.95	01/31/10	0.74	01/31/10	42.46
10/31/09	10.02	10/31/09	0.79	10/31/09	44.12
07/31/09	10.20	07/31/09	0.84	07/31/09	45.54

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SOUTH JERSEY INDS INC (NYSE)

Scottrade

SJI	41.50	▲0.21	(0.51%)	Vol. 126,678	15:19 ET

South Jersey Inds Inc. is engaged in the business of operating, through subsidiaries, various business enterprises. The company's most significant subsidiary is South Jersey Gas Company (SJG). SJG is a public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas.

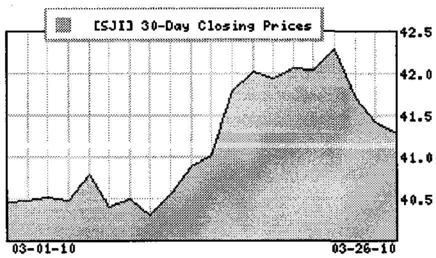
General Information

SOUTH JERSEY IN
1 South Jersey Plaza
Folsom, NJ 08037
Phone: 609 561-9000
Fax: 609 561-8225
Web: www.sjindustries.com
Email: investorrelations@sjindustries.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	05/10/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	41.29
52 Week High	42.35
52 Week Low	33.04
Beta	0.21
20 Day Moving Average	91,396.00
Target Price Consensus	47.86



% Price Change		% Price Change Relative to S&P 500	
4 Week	3.56	4 Week	-1.95
12 Week	8.15	12 Week	3.37
YTD	8.15	YTD	3.37

Share Information		Dividend Information	
Shares Outstanding (millions)	29.81	Dividend Yield	3.20%
		Annual Dividend	$1.32
Market Capitalization (millions)	1,230.98	Payout Ratio	0.55
Short Ratio	9.59	Change in Payout Ratio	0.03
Last Split Date	07/01/2005	Last Dividend Payout / Amount	03/08/2010 / $0.33

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.45	Current (1=Strong Buy, 5=Strong Sell)	1.50
Current Year EPS Consensus Estimate	2.62	30 Days Ago	1.43
Estimated Long-Term EPS Growth Rate	11.60	60 Days Ago	1.43
Next EPS Report Date	05/10/2010	90 Days Ago	1.43

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	15.77	vs. Previous Year	23.88%	vs. Previous Year	-17.18%
Trailing 12 Months:	17.35	vs. Previous Quarter	1,483.33%	vs. Previous Quarter:	74.45%
PEG Ratio	1.36				

Price Ratios	ROE	ROA

Price/Book	2.26	12/31/09	13.23	12/31/09	4.14
Price/Cash Flow	11.11	09/30/09	12.53	09/30/09	3.86
Price / Sales	1.46	06/30/09	13.17	06/30/09	4.06
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	0.77	12/31/09	0.55	12/31/09	8.42
09/30/09	0.88	09/30/09	0.54	09/30/09	7.47
06/30/09	0.92	06/30/09	0.64	06/30/09	7.13
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	11.06	12/31/09	11.06	12/31/09	18.28
09/30/09	10.32	09/30/09	10.32	09/30/09	17.74
06/30/09	17.54	06/30/09	17.54	06/30/09	18.11
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	6.63	12/31/09	0.57	12/31/09	36.48
09/30/09	6.37	09/30/09	0.63	09/30/09	38.63
06/30/09	5.74	06/30/09	0.62	06/30/09	38.14

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SOUTHWEST GAS CORP (NYSE)					Scottrade
SWX	30.12	▲0.15	(0.50%)	Vol. 127,488	15:07 ET

SOUTHWEST GAS CORP. is principally engaged in the business of purchasing,transporting, and distributing natural gas in portions of Arizona, Nevada,and California. The Company also engaged in financial services activities,through PriMerit Bank, Federal Savings Bank (PriMerit or the Bank), a wholly owned subsidiary.

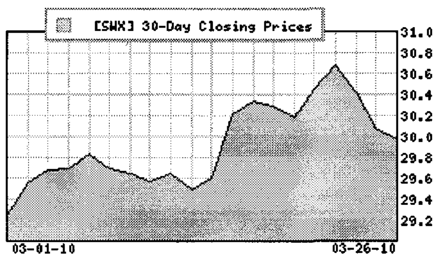
General Information

SOUTHWEST GAS
5241 Spring Mountain Road
P.O. Box 98510
Las Vegas, NV 89193-8510
Phone: 702 876-7237
Fax: 702-876-7037
Web: www.swgas.com
Email: None

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	04/23/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	29.97
52 Week High	30.70
52 Week Low	18.96
Beta	0.73
20 Day Moving Average	178,980.75
Target Price Consensus	31.2



% Price Change		% Price Change Relative to S&P 500	
4 Week	4.86	4 Week	-0.72
12 Week	5.05	12 Week	0.41
YTD	5.05	YTD	0.41

Share Information		Dividend Information	
Shares Outstanding (millions)	45.29	Dividend Yield	3.17%
		Annual Dividend	$0.95
Market Capitalization (millions)	1,357.43	Payout Ratio	0.41
Short Ratio	8.02	Change in Payout Ratio	-0.11
Last Split Date	N/A	Last Dividend Payout / Amount	02/11/2010 / $0.24

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.38	Current (1=Strong Buy, 5=Strong Sell)	2.43
Current Year EPS Consensus Estimate	2.12	30 Days Ago	2.43
Estimated Long-Term EPS Growth Rate	7.00	60 Days Ago	2.43
Next EPS Report Date	04/23/2010	90 Days Ago	2.43

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.14	vs. Previous Year	43.66%	vs. Previous Year	-2.08%
Trailing 12 Months:	12.86	vs. Previous Quarter	466.67%	vs. Previous Quarter:	57.10%
PEG Ratio	2.02				
Price Ratios		**ROE**		**ROA**	
Price/Book	1.22	12/31/09	9.25	12/31/09	2.68

Price/Cash Flow	4.95	09/30/09	7.97	09/30/09	2.28
Price / Sales	0.72	06/30/09	5.70	06/30/09	1.63
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	0.88	12/31/09	0.88	12/31/09	5.29
09/30/09	0.72	09/30/09	0.72	09/30/09	4.47
06/30/09	0.69	06/30/09	0.69	06/30/09	3.07
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	6.97	12/31/09	6.97	12/31/09	24.51
09/30/09	5.93	09/30/09	5.93	09/30/09	23.76
06/30/09	5.35	06/30/09	5.35	06/30/09	24.16
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	1.06	12/31/09	49.31
09/30/09	-	09/30/09	1.06	09/30/09	49.16
06/30/09	-	06/30/09	1.04	06/30/09	50.97

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WGL HLDGS INC (NYSE)					Scottrade
WGL	34.76	▲0.26	(0.75%)	Vol. 110,436	15:08 ET

WASHINGTON GAS LIGHT CO is a public utility that delivers and sells natural gas to metropolitan Washington, D.C. and adjoining areas in Maryland and Virginia. A distribution subsidiary serves portions of Virginia and West Virginia. The Company has four wholly-owned active subsidiaries that include: Shenandoah Gas Company (Shenandoah) is engaged in the delivery and sale of natural gas at retail in the Shenandoah Valley, including Winchester, Middletown, Strasburg, Stephens City and New Market, Virginia, and Martinsburg, West Virginia.

General Information

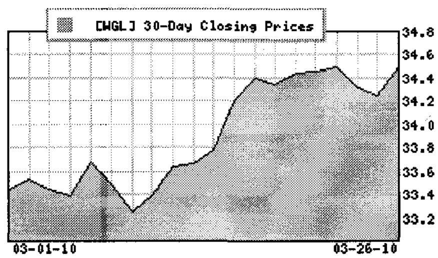
WGL HLDGS INC
101 Constitution Avenue NW
Washington, DC 20080
Phone: 703 750-2000
Fax: 703 750-4828
Web: www.wglholdings.com
Email: madams@washgas.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	September
Last Reported Quarter	12/31/09
Next EPS Date	04/28/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	34.50
52 Week High	34.98
52 Week Low	28.59
Beta	0.18
20 Day Moving Average	214,144.91
Target Price Consensus	36.25



% Price Change		% Price Change Relative to S&P 500	
4 Week	5.02	4 Week	-0.57
12 Week	2.86	12 Week	-1.68
YTD	2.86	YTD	-1.68

Share Information		Dividend Information	
Shares Outstanding (millions)	50.30	Dividend Yield	4.26%
		Annual Dividend	$1.47
Market Capitalization (millions)	1,735.45	Payout Ratio	0.58
Short Ratio	13.35	Change in Payout Ratio	-0.06
Last Split Date	05/02/1995	Last Dividend Payout / Amount	01/06/2010 / $0.37

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.56	Current (1=Strong Buy, 5=Strong Sell)	2.67
Current Year EPS Consensus Estimate	2.31	30 Days Ago	2.60
Estimated Long-Term EPS Growth Rate	-	60 Days Ago	2.67
Next EPS Report Date	04/28/2010	90 Days Ago	2.67

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.94	vs. Previous Year	-1.94%	vs. Previous Year	-11.45%
Trailing 12 Months:	13.69	vs. Previous Quarter	504.00%	vs. Previous Quarter:	76.20%
PEG Ratio	-				

Price Ratios	ROE	ROA

Price/Book	1.54	12/31/09	11.26	12/31/09	3.76
Price/Cash Flow	7.62	09/30/09	11.44	09/30/09	3.78
Price / Sales	0.67	06/30/09	11.67	06/30/09	3.84
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	1.12	12/31/09	0.83	12/31/09	4.86
09/30/09	1.08	09/30/09	0.67	09/30/09	4.72
06/30/09	1.17	06/30/09	0.82	06/30/09	5.26
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	7.15	12/31/09	7.15	12/31/09	22.42
09/30/09	7.30	09/30/09	7.30	09/30/09	21.89
06/30/09	7.81	06/30/09	7.81	06/30/09	22.56
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	11.28	12/31/09	0.54	12/31/09	34.66
09/30/09	9.89	09/30/09	0.51	09/30/09	33.29
06/30/09	9.10	06/30/09	0.55	06/30/09	34.99

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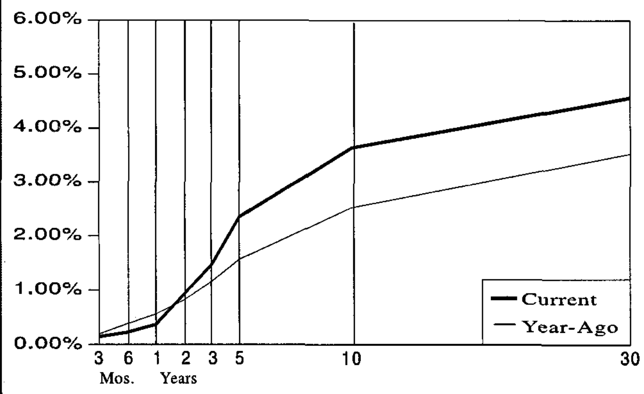
Selected Yields

	Recent (3/17/10)	3 Months Ago (12/16/09)	Year Ago (3/18/09)
TAXABLE			
Market Rates			
Discount Rate	0.75	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.16	0.12	0.49
3-month LIBOR	0.27	0.25	1.29
Bank CDs			
6-month	0.25	0.31	0.84
1-year	0.44	0.54	1.05
5-year	1.99	1.95	2.07
U.S. Treasury Securities			
3-month	0.15	0.03	0.20
6-month	0.23	0.16	0.38
1-year	0.37	0.37	0.56
5-year	2.36	2.33	1.57
10-year	3.64	3.60	2.53
10-year (inflation-protected)	1.38	1.26	1.31
30-year	4.57	4.52	3.53
30-year Zero	4.84	4.74	3.54

Treasury Security Yield Curve



	Recent (3/17/10)	3 Months Ago (12/16/09)	Year Ago (3/18/09)
Mortgage-Backed Securities			
GNMA 6.5%	2.00	3.33	3.59
FHLMC 6.5% (Gold)	1.51	1.85	3.15
FNMA 6.5%	2.29	1.81	3.28
FNMA ARM	2.93	2.41	3.60
Corporate Bonds			
Financial (10-year) A	5.08	5.32	7.52
Industrial (25/30-year) A	5.65	5.73	6.07
Utility (25/30-year) A	5.75	5.74	5.90
Utility (25/30-year) Baa/BBB	6.24	6.45	7.51
Foreign Bonds (10-Year)			
Canada	3.47	3.41	2.70
Germany	3.11	3.20	3.22
Japan	1.36	1.27	1.31
United Kingdom	4.01	3.89	3.11
Preferred Stocks			
Utility A	5.52	5.71	6.25
Financial A	6.53	6.67	9.76
Financial Adjustable A	5.47	5.47	5.47
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.33	4.19	5.03
25-Bond Index (Revs)	4.92	4.93	5.83
General Obligation Bonds (GOs)			
1-year Aaa	0.27	0.29	0.57
1-year A	1.10	1.24	0.67
5-year Aaa	1.44	1.56	2.39
5-year A	2.44	2.73	2.99
10-year Aaa	2.99	3.12	3.45
10-year A	4.04	4.14	3.95
25/30-year Aaa	4.44	4.47	4.98
25/30-year A	5.48	5.41	5.98
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.76	4.74	6.00
Electric AA	4.74	4.72	6.10
Housing AA	5.57	5.58	6.35
Hospital AA	5.06	5.13	6.30
Toll Road Aaa	4.81	4.77	6.15

Federal Reserve Data

BANK RESERVES
(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	3/10/10	2/24/10	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1163123	1192272	-29149	1098926	1035752	907736
Borrowed Reserves	101275	102895	-1620	136615	200733	334538
Net Free/Borrowed Reserves	1061848	1089377	-27529	962311	835019	573199

MONEY SUPPLY
(One-Week Period; in Billions, Seasonally Adjusted)

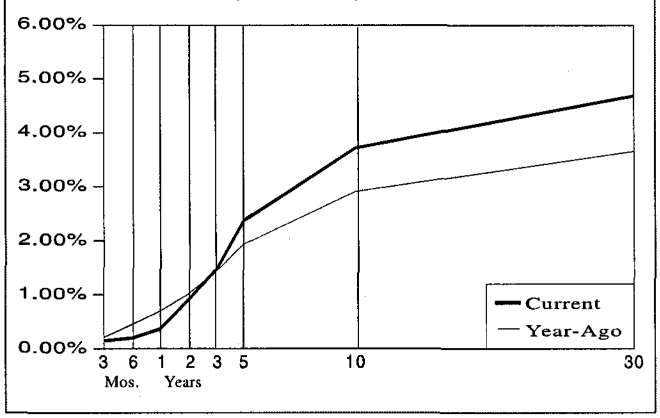
	Recent Levels			Growth Rates Over the Last...		
	3/1/10	2/22/10	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1712.9	1718.4	-5.5	6.3%	9.3%	9.9%
M2 (M1+savings+small time deposits)	8526.6	8537.8	-11.2	0.8%	2.5%	1.9%

Selected Yields

	Recent (3/10/10)	3 Months Ago (12/09/09)	Year Ago (3/11/09)
TAXABLE			
Market Rates			
Discount Rate	0.75	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.14	0.12	0.75
3-month LIBOR	0.26	0.26	1.33
Bank CDs			
6-month	0.25	0.31	0.84
1-year	0.44	0.54	1.05
5-year	1.99	1.95	2.07
U.S. Treasury Securities			
3-month	0.15	0.02	0.22
6-month	0.20	0.14	0.45
1-year	0.37	0.27	0.70
5-year	2.38	2.15	1.94
10-year	3.72	3.43	2.91
10-year (inflation-protected)	1.47	1.27	2.01
30-year	4.69	4.42	3.66
30-year Zero	4.97	4.63	3.56

	Recent (3/10/10)	3 Months Ago (12/09/09)	Year Ago (3/11/09)
Mortgage-Backed Securities			
GNMA 6.5%	2.09	3.22	4.21
FHLMC 6.5% (Gold)	1.67	1.94	3.58
FNMA 6.5%	2.43	1.95	3.73
FNMA ARM	2.93	2.41	3.60
Corporate Bonds			
Financial (10-year) A	5.22	5.34	7.38
Industrial (25/30-year) A	5.81	5.68	6.18
Utility (25/30-year) A	5.86	5.71	6.05
Utility (25/30-year) Baa/BBB	6.35	6.32	7.50
Foreign Bonds (10-Year)			
Canada	3.54	3.31	2.92
Germany	3.15	3.14	3.07
Japan	1.31	1.25	1.32
United Kingdom	4.08	3.67	3.09
Preferred Stocks			
Utility A	5.54	6.08	6.96
Financial A	6.28	7.17	11.44
Financial Adjustable A	5.46	5.54	5.46

Treasury Security Yield Curve



	Recent (3/10/10)	3 Months Ago (12/09/09)	Year Ago (3/11/09)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.34	4.24	4.96
25-Bond Index (Revs)	4.93	4.98	5.80
General Obligation Bonds (GOs)			
1-year Aaa	0.28	0.33	0.57
1-year A	1.03	1.25	0.67
5-year Aaa	1.45	1.47	2.30
5-year A	2.45	2.67	2.55
10-year Aaa	3.01	3.07	3.30
10-year A	4.02	4.04	3.83
25/30-year Aaa	4.44	4.47	4.87
25/30-year A	5.48	5.41	5.91
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.76	4.74	5.90
Electric AA	4.75	4.61	5.95
Housing AA	5.54	5.65	6.25
Hospital AA	5.06	5.17	6.30
Toll Road Aaa	4.81	4.77	6.00

Federal Reserve Data

BANK RESERVES
(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	2/24/10	2/10/10	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1192276	1119426	72850	1092703	1009425	889600
Borrowed Reserves	102895	126874	-23979	151648	216902	352598
Net Free/Borrowed Reserves	1089381	992552	96829	941055	792523	537002

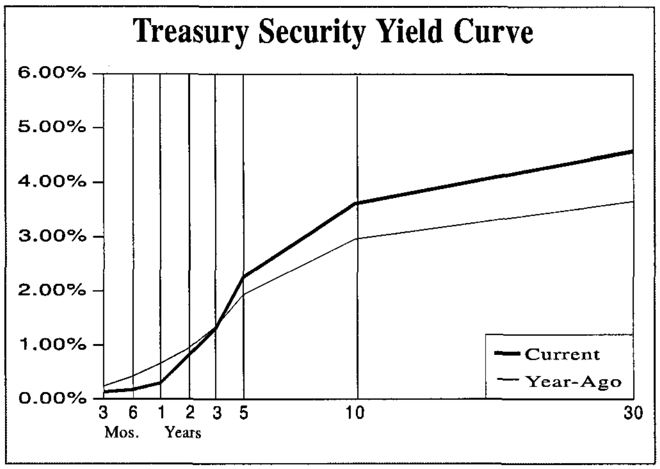
MONEY SUPPLY
(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	2/22/10	2/15/10	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1718.5	1715.6	2.9	8.6%	10.1%	10.4%
M2 (M1+savings+small time deposits)	8537.6	8527.3	10.3	1.2%	3.3%	2.3%

Selected Yields

	Recent (3/03/10)	3 Months Ago (12/02/09)	Year Ago (3/04/09)
TAXABLE			
Market Rates			
Discount Rate	0.75	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.16	0.13	0.79
3-month LIBOR	0.25	0.26	1.28
Bank CDs			
6-month	0.25	0.31	0.84
1-year	0.44	0.54	1.04
5-year	1.99	2.21	2.07
U.S. Treasury Securities			
3-month	0.14	0.04	0.25
6-month	0.18	0.14	0.43
1-year	0.30	0.26	0.66
5-year	2.27	2.09	1.94
10-year	3.62	3.31	2.97
10-year (inflation-protected)	1.44	1.10	2.03
30-year	4.59	4.25	3.67
30-year Zero	4.86	4.46	3.55

	Recent (3/03/10)	3 Months Ago (12/02/09)	Year Ago (3/04/09)
Mortgage-Backed Securities			
GNMA 6.5%	2.17	3.02	4.19
FHLMC 6.5% (Gold)	1.84	2.06	4.13
FNMA 6.5%	2.26	1.93	4.15
FNMA ARM	2.93	2.41	3.60
Corporate Bonds			
Financial (10-year) A	5.16	5.26	8.50
Industrial (25/30-year) A	5.70	5.58	6.23
Utility (25/30-year) A	5.79	5.58	5.93
Utility (25/30-year) Baa/BBB	6.28	6.25	7.16
Foreign Bonds (10-Year)			
Canada	3.42	3.26	3.02
Germany	3.14	3.16	3.14
Japan	1.34	1.26	1.31
United Kingdom	4.03	3.59	3.64
Preferred Stocks			
Utility A	5.94	5.68	7.62
Financial A	6.73	7.16	12.59
Financial Adjustable A	5.53	5.53	5.53
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.36	4.33	4.87
25-Bond Index (Revs)	4.94	5.03	5.76
General Obligation Bonds (GOs)			
1-year Aaa	0.27	0.34	0.57
1-year A	1.04	1.31	0.67
5-year Aaa	1.49	1.56	2.30
5-year A	2.49	2.77	2.90
10-year Aaa	3.02	3.11	3.29
10-year A	4.07	4.08	3.79
25/30-year Aaa	4.44	4.47	4.86
25/30-year A	5.48	5.46	5.86
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.76	4.76	5.90
Electric AA	4.75	4.64	6.00
Housing AA	5.62	5.70	6.25
Hospital AA	5.06	5.20	6.20
Toll Road Aaa	4.81	4.79	6.05



Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	2/24/10	2/10/10	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1192276	1119424	72852	1092703	1009425	889600
Borrowed Reserves	102895	126874	-23979	151648	216902	352598
Net Free/Borrowed Reserves	1089381	992550	96831	941054	792523	537001

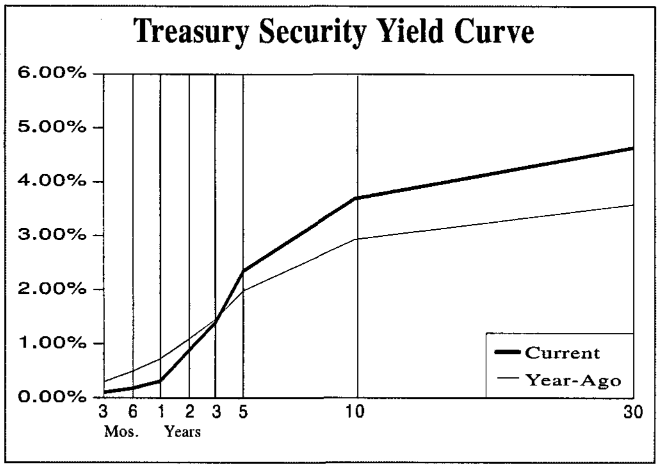
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	2/15/10	2/8/10	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1715.6	1697.8	17.8	7.9%	7.6%	9.8%
M2 (M1+savings+small time deposits)	8526.9	8486.2	40.7	0.7%	2.7%	2.3%

Selected Yields

	Recent (2/24/10)	3 Months Ago (11/24/09)	Year Ago (2/25/09)
TAXABLE			
Market Rates			
Discount Rate	0.75	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.15	0.11	0.43
3-month LIBOR	0.25	0.26	1.26
Bank CDs			
6-month	0.25	0.34	0.85
1-year	0.45	0.57	1.05
5-year	1.99	2.21	2.07
U.S. Treasury Securities			
3-month	0.11	0.03	0.30
6-month	0.18	0.13	0.49
1-year	0.31	0.26	0.72
5-year	2.35	2.09	1.99
10-year	3.69	3.30	2.93
10-year (inflation-protected)	1.50	1.14	1.92
30-year	4.64	4.25	3.59
30-year Zero	4.90	4.43	3.46



	Recent (2/24/10)	3 Months Ago (11/24/09)	Year Ago (2/25/09)
Mortgage-Backed Securities			
GNMA 6.5%	2.39	2.97	3.79
FHLMC 6.5% (Gold)	2.03	1.82	3.74
FNMA 6.5%	2.81	1.80	3.65
FNMA ARM	2.98	2.42	3.90
Corporate Bonds			
Financial (10-year) A	5.33	5.19	8.78
Industrial (25/30-year) A	5.74	5.52	6.16
Utility (25/30-year) A	5.85	5.52	5.95
Utility (25/30-year) Baa/BBB	6.34	6.22	7.12
Foreign Bonds (10-Year)			
Canada	3.45	3.29	2.95
Germany	3.14	3.25	2.99
Japan	1.33	1.30	1.31
United Kingdom	4.08	3.66	3.46
Preferred Stocks			
Utility A	5.94	6.02	6.08
Financial A	6.73	6.90	12.58
Financial Adjustable A	5.52	5.52	5.52
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.38	4.35	4.89
25-Bond Index (Revs)	4.97	5.04	5.70
General Obligation Bonds (GOs)			
1-year Aaa	0.32	0.35	0.57
1-year A	1.08	1.32	0.67
5-year Aaa	1.55	1.65	1.98
5-year A	2.58	2.86	2.24
10-year Aaa	3.11	3.18	3.03
10-year A	4.11	4.10	3.53
25/30-year Aaa	4.46	4.49	4.81
25/30-year A	5.51	5.48	5.85
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.79	4.79	5.85
Electric AA	4.78	4.77	5.90
Housing AA	5.65	5.72	6.20
Hospital AA	5.07	5.19	6.25
Toll Road Aaa	4.84	4.84	5.95

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	2/10/10	1/27/10	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1119425	1063402	56023	1071837	974870	868086
Borrowed Reserves	126874	125300	1574	168048	233876	369577
Net Free/Borrowed Reserves	992551	938102	54449	903789	740994	498509

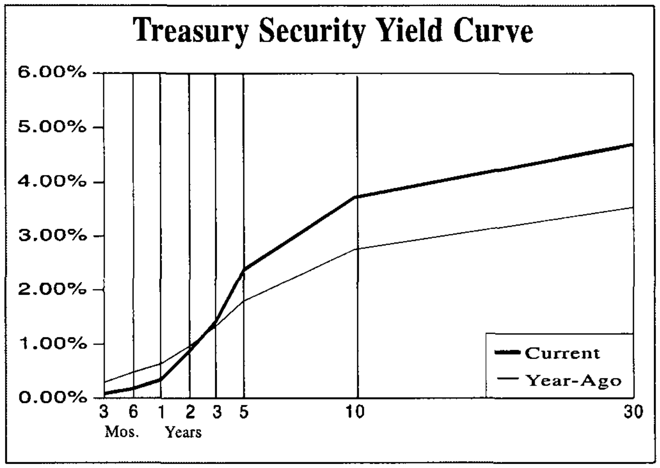
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	2/8/10	2/1/10	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1696.9	1691.8	5.1	1.3%	5.0%	8.0%
M2 (M1+savings+small time deposits)	8484.8	8470.8	14.0	-1.1%	1.6%	1.9%

Selected Yields

	Recent (2/17/10)	3 Months Ago (11/18/09)	Year Ago (2/18/09)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.16	0.14	0.52
3-month LIBOR	0.25	0.27	1.25
Bank CDs			
6-month	0.25	0.34	0.87
1-year	0.45	0.58	1.20
5-year	1.97	2.23	2.14
U.S. Treasury Securities			
3-month	0.09	0.02	0.30
6-month	0.18	0.14	0.48
1-year	0.34	0.28	0.63
5-year	2.38	2.19	1.80
10-year	3.73	3.36	2.76
10-year (inflation-protected)	1.44	1.15	1.61
30-year	4.70	4.30	3.55
30-year Zero	4.96	4.47	3.43



	Recent (2/17/10)	3 Months Ago (11/18/09)	Year Ago (2/18/09)
Mortgage-Backed Securities			
GNMA 6.5%	2.99	3.03	4.05
FHLMC 6.5% (Gold)	1.75	2.03	3.92
FNMA 6.5%	2.61	1.99	3.78
FNMA ARM	2.98	2.42	3.90
Corporate Bonds			
Financial (10-year) A	5.41	5.21	8.33
Industrial (25/30-year) A	5.85	5.52	6.14
Utility (25/30-year) A	5.93	5.51	5.74
Utility (25/30-year) Baa/BBB	6.44	6.24	7.07
Foreign Bonds (10-Year)			
Canada	3.47	3.41	2.86
Germany	3.19	3.29	2.99
Japan	1.33	1.31	1.26
United Kingdom	4.03	3.68	3.39
Preferred Stocks			
Utility A	5.40	5.68	6.03
Financial A	7.14	7.14	13.57
Financial Adjustable A	5.52	5.52	5.52
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.34	4.40	4.89
25-Bond Index (Revs)	4.96	5.02	5.67
General Obligation Bonds (GOs)			
1-year Aaa	0.31	0.42	0.55
1-year A	1.10	1.38	0.65
5-year Aaa	1.55	1.82	1.85
5-year A	2.59	3.00	2.15
10-year Aaa	3.12	3.27	2.90
10-year A	4.10	4.18	3.40
25/30-year Aaa	4.45	4.49	4.72
25/30-year A	5.50	5.48	5.72
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.77	4.78	5.80
Electric AA	4.76	4.79	5.90
Housing AA	5.63	5.72	6.15
Hospital AA	5.03	5.19	6.10
Toll Road Aaa	4.83	4.91	5.95

Federal Reserve Data

BANK RESERVES
(Two-Week Period; in Millions, Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	2/10/10	1/27/10	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1119423	1063401	56022	1071836	974870	868086
Borrowed Reserves	126874	125300	1574	168048	233876	369577
Net Free/Borrowed Reserves	992549	938101	54448	903789	740994	498509

MONEY SUPPLY
(One-Week Period; in Billions, Seasonally Adjusted)

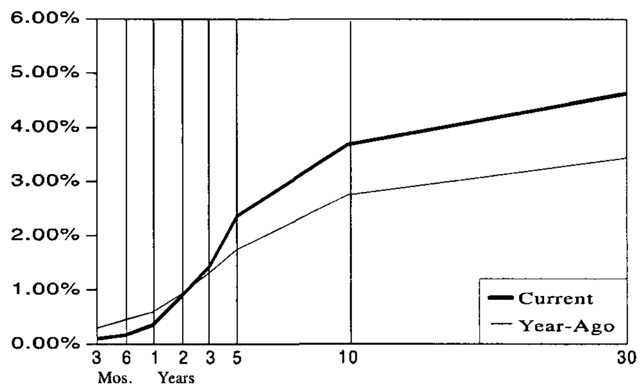
	Recent Levels			Growth Rates Over the Last...		
	2/1/10	1/25/10	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1692.0	1677.0	15.0	3.8%	3.3%	8.4%
M2 (M1+savings+small time deposits)	8471.4	8464.4	7.0	-1.3%	1.1%	1.8%

Selected Yields

	Recent (2/10/10)	3 Months Ago (11/10/09)	Year Ago (2/11/09)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.16	0.13	0.48
3-month LIBOR	0.25	0.28	1.23
Bank CDs			
6-month	0.25	0.38	0.89
1-year	0.45	0.62	1.08
5-year	1.97	2.22	2.37
U.S. Treasury Securities			
3-month	0.10	0.06	0.30
6-month	0.17	0.16	0.45
1-year	0.36	0.30	0.60
5-year	2.36	2.29	1.75
10-year	3.69	3.47	2.75
10-year (inflation-protected)	1.31	1.25	1.60
30-year	4.63	4.41	3.44
30-year Zero	4.88	4.58	3.31

	Recent (2/10/10)	3 Months Ago (11/10/09)	Year Ago (2/11/09)
Mortgage-Backed Securities			
GNMA 6.5%	3.10	3.43	4.02
FHLMC 6.5% (Gold)	2.05	2.28	3.62
FNMA 6.5%	2.03	2.43	3.63
FNMA ARM	2.98	2.42	3.89
Corporate Bonds			
Financial (10-year) A	5.40	5.26	8.09
Industrial (25/30-year) A	5.75	5.58	5.94
Utility (25/30-year) A	5.80	5.64	5.60
Utility (25/30-year) Baa/BBB	6.34	6.32	7.00
Foreign Bonds (10-Year)			
Canada	3.44	3.50	2.94
Germany	3.20	3.34	3.19
Japan	1.34	1.44	1.31
United Kingdom	3.93	3.76	3.61
Preferred Stocks			
Utility A	5.98	5.74	6.01
Financial A	6.87	6.86	11.01
Financial Adjustable A	5.51	5.51	5.51

Treasury Security Yield Curve



	Recent (2/10/10)	3 Months Ago (11/10/09)	Year Ago (2/11/09)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.36	4.41	4.96
25-Bond Index (Revs)	4.96	5.01	5.74
General Obligation Bonds (GOs)			
1-year Aaa	0.31	0.42	0.55
1-year A	1.17	1.37	0.65
5-year Aaa	1.58	1.93	1.76
5-year A	2.63	3.10	2.02
10-year Aaa	3.12	3.35	2.84
10-year A	4.10	4.24	3.34
25/30-year Aaa	4.43	4.49	4.71
25/30-year A	5.48	5.53	5.75
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.80	4.80	5.75
Electric AA	4.74	4.78	5.80
Housing AA	5.63	5.78	6.10
Hospital AA	5.03	5.19	6.15
Toll Road Aaa	4.81	4.80	5.85

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	1/27/10	1/13/10	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1063393	1004703	58690	1063241	946974	855998
Borrowed Reserves	125300	164979	-39679	185403	249615	385808
Net Free/Borrowed Reserves	938093	839724	98369	877837	697359	470190

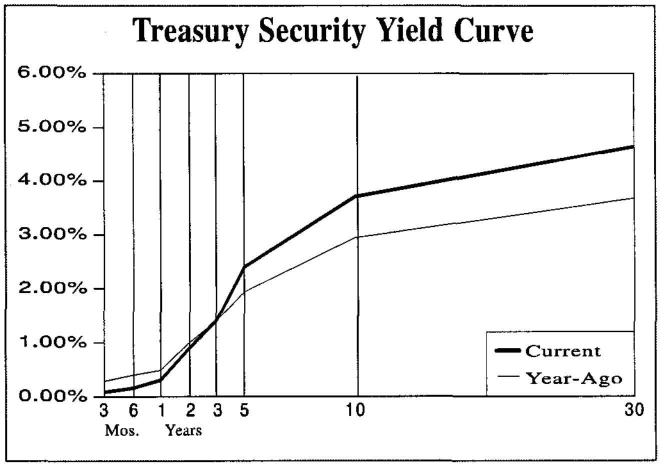
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	1/25/10	1/18/10	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1677.1	1664.9	12.2	-0.0%	3.8%	8.0%
M2 (M1+savings+small time deposits)	8464.3	8458.3	6.0	-1.6%	0.2%	1.7%

Selected Yields

	Recent (2/03/10)	3 Months Ago (11/04/09)	Year Ago (2/04/09)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.17	0.16	0.55
3-month LIBOR	0.25	0.28	1.24
Bank CDs			
6-month	0.25	0.38	0.87
1-year	0.45	0.62	1.29
5-year	1.97	2.22	2.41
U.S. Treasury Securities			
3-month	0.09	0.04	0.29
6-month	0.16	0.15	0.40
1-year	0.31	0.33	0.49
5-year	2.40	2.38	1.94
10-year	3.71	3.52	2.94
10-year (inflation-protected)	1.22	1.39	1.78
30-year	4.64	4.40	3.68
30-year Zero	4.87	4.55	3.55



	Recent (2/03/10)	3 Months Ago (11/04/09)	Year Ago (2/04/09)
Mortgage-Backed Securities			
GNMA 6.5%	3.10	3.52	4.28
FHLMC 6.5% (Gold)	2.29	2.31	4.17
FNMA 6.5%	2.25	2.43	4.14
FNMA ARM	2.98	2.42	3.89
Corporate Bonds			
Financial (10-year) A	5.46	5.35	8.03
Industrial (25/30-year) A	5.76	5.59	6.15
Utility (25/30-year) A	5.80	5.71	6.00
Utility (25/30-year) Baa/BBB	6.41	6.39	7.27
Foreign Bonds (10-Year)			
Canada	3.43	3.48	3.12
Germany	3.22	3.32	3.36
Japan	1.36	1.41	1.36
United Kingdom	3.92	3.79	3.77
Preferred Stocks			
Utility A	5.59	5.59	6.02
Financial A	6.69	7.12	10.79
Financial Adjustable A	5.50	5.51	5.51
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.39	4.39	5.16
25-Bond Index (Revs)	4.99	4.95	5.89
General Obligation Bonds (GOs)			
1-year Aaa	0.30	0.43	0.55
1-year A	1.24	1.45	0.65
5-year Aaa	1.62	1.98	1.79
5-year A	2.73	3.13	2.09
10-year Aaa	3.21	3.36	2.90
10-year A	4.16	4.30	3.40
25/30-year Aaa	4.46	4.51	4.82
25/30-year A	5.48	5.56	5.82
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.80	4.71	5.90
Electric AA	4.76	4.76	6.00
Housing AA	5.65	5.83	6.25
Hospital AA	5.03	5.17	6.20
Toll Road Aaa	4.79	4.80	6.05

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	1/27/10	1/13/10	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1063393	1004700	58693	1063252	946979	856001
Borrowed Reserves	125300	164979	-39679	185403	249615	385808
Net Free/Borrowed Reserves	938093	839721	98372	877848	697364	470193

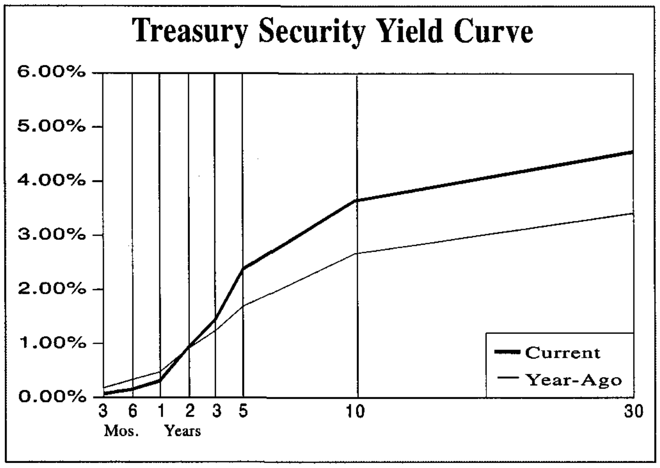
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	1/18/10	1/11/10	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1665.0	1653.7	11.3	-2.7%	2.2%	7.2%
M2 (M1+savings+small time deposits)	8458.6	8451.5	7.1	-1.2%	0.4%	2.0%

Selected Yields

	Recent (1/27/10)	3 Months Ago (10/28/09)	Year Ago (1/28/09)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.16	0.17	0.45
3-month LIBOR	0.25	0.28	1.17
Bank CDs			
6-month	0.25	0.38	0.88
1-year	0.46	0.62	1.25
5-year	2.00	2.22	2.39
U.S. Treasury Securities			
3-month	0.07	0.06	0.18
6-month	0.15	0.15	0.33
1-year	0.31	0.36	0.47
5-year	2.39	2.33	1.69
10-year	3.65	3.42	2.67
10-year (inflation-protected)	1.24	1.44	1.78
30-year	4.56	4.26	3.42
30-year Zero	4.80	4.39	3.29



	Recent (1/27/10)	3 Months Ago (10/28/09)	Year Ago (1/28/09)
Mortgage-Backed Securities			
GNMA 6.5%	3.05	3.69	3.90
FHLMC 6.5% (Gold)	2.24	2.26	3.50
FNMA 6.5%	2.14	2.44	3.50
FNMA ARM	3.24	2.56	4.27
Corporate Bonds			
Financial (10-year) A	5.49	5.45	7.96
Industrial (25/30-year) A	5.69	5.44	6.18
Utility (25/30-year) A	5.72	5.53	6.10
Utility (25/30-year) Baa/BBB	6.32	6.20	7.04
Foreign Bonds (10-Year)			
Canada	3.35	3.46	2.96
Germany	3.20	3.26	3.23
Japan	1.32	1.43	1.27
United Kingdom	3.88	3.61	3.64
Preferred Stocks			
Utility A	5.58	5.58	5.98
Financial A	6.68	7.12	8.89
Financial Adjustable A	5.50	5.50	5.50
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.30	4.31	5.13
25-Bond Index (Revs)	4.91	4.87	5.82
General Obligation Bonds (GOs)			
1-year Aaa	0.30	0.45	0.55
1-year A	1.23	1.45	0.65
5-year Aaa	1.64	2.07	1.84
5-year A	2.73	3.18	2.14
10-year Aaa	3.25	3.35	3.00
10-year A	4.18	4.33	3.50
25/30-year Aaa	4.43	4.50	5.05
25/30-year A	5.43	5.55	6.05
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.81	4.69	6.05
Electric AA	4.74	4.77	6.10
Housing AA	5.65	5.85	6.40
Hospital AA	5.01	5.15	6.45
Toll Road Aaa	4.86	4.80	6.15

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	1/13/10	**12/30/09**	**Change**	**12 Wks.**	**26 Wks.**	**52 Wks.**
Excess Reserves	1004700	1059954	-55254	1052310	924156	847856
Borrowed Reserves	164979	163525	1454	205393	268367	401995
Net Free/Borrowed Reserves	839721	896429	-56708	846916	655789	445861

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	1/11/10	**1/4/10**	**Change**	**3 Mos.**	**6 Mos.**	**12 Mos.**
M1 (Currency+demand deposits)	1655.3	1704.6	-49.3	-4.0%	0.3%	3.8%
M2 (M1+savings+small time deposits)	8452.3	8461.7	-9.4	-0.8%	0.5%	2.0%

BELLA VISTA WATER COMPANY, INC.
DOCKET NO. W-02465A-09-0411 ET AL.
TABLE OF CONTENTS TO SCHEDULES WAR

SCHEDULE #	
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WAR - 2	DCF COST OF EQUITY CAPITAL
WAR - 3	DIVIDEND YIELD CALCULATION
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BELLA VISTA WATER COMPANY, INC.
TEST YEAR ENDED MARCH 31, 2009
COST OF CAPITAL SUMMARY

WEIGHTED AVERAGE COST OF CAPITAL - CONSOLIDATED

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) RUCO ADJUSTMENT	(C) RUCO ADJUSTED	(D) CAPITAL RATIO	(E) COST RATE	WEIGHTED COST RATE
1	Long-Term Debt	$ 1,697,323	$ -	$ 1,697,323	21.08%	6.27%	1.32%
2	Common Equity	6,354,582	-	6,354,582	78.92%	9.00%	7.10%
3	Total Capitalization	$ 8,051,905	$ -	$ 8,051,905	100.00%		
4	**WEIGHTED AVERAGE COST OF CAPITAL**						**8.42%**

REFERENCES:
COLUMN (A): COMPANY, SCHEDULE D
COLUMN (B): TESTIMONY, WAR
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): COLUMN (C) LINES 1 & 2 / LINE 4
COLUMN (E): LINE 1; SCHEDULE WAR-1, PAGE 2, LINE 2; TESTIMONY WAR
COLUMN (F): COLUMN (D) x COLUMN (E), LINE 4; LINE 1 + LINE 2

BELLA VISTA WATER COMPANY, INC.
TEST YEAR ENDED MARCH 31, 2009
COST OF CAPITAL SUMMARY

WEIGHTED COST OF LONG-TERM DEBT

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
		END OF TEST YEAR				END OF PROJECTED YEAR			
LINE NO.	DESCRIPTION	AMOUNT OUTSTANDING	ANNUAL INTEREST	INTEREST RATE	WEIGHTED COST	AMOUNT OUTSTANDING	ANNUAL INTEREST	INTEREST RATE	WEIGHTED COST
1	WIFA #1	$ 108,754	$ 6,634	6.10%	0.391%	$ 99,968	$ 6,098	6.10%	0.385%
2	WIFA #2	1,545,436	96,744	6.26%	5.700%	1,455,280	91,101	6.26%	5.751%
3	K-MART	6,140	526	8.57%	0.031%	484	41	8.47%	0.003%
4	BVR/RC-3	13,849	1,011	7.30%	0.060%	9,854	719	7.30%	0.045%
5	BVR/RC-4	16,109	1,113	6.91%	0.066%	12,802	885	6.91%	0.056%
6	BVR-CCCII	7,035	504	7.16%	0.030%	5,645	404	7.16%	0.026%
7	TOTALS	$ 1,697,323	$ 106,532		6.28%	$ 1,584,033	$ 99,248		
8	**WEIGHTED COST OF DEBT**								6.27%

REFERENCES:
COLUMN (A) LINES 1 THRU 6: COMPANY APPLICATION SCHEDULE D-2
COLUMN (B) LINES 1 THRU 6: COMPANY APPLICATION SCHEDULE D-2
COLUMN (C) LINES 1 THRU 6: COMPANY APPLICATION SCHEDULE D-2
COLUMN (D) LINES 1 THRU 6: COLUMN (C) / COLUMN (B)
COLUMN (E) LINES 1 THRU 6 : COLUMN (D) LINES 1 THRU 6 / LINE 7
COLUMN (F) LINES 1 THRU 6: COMPANY APPLICATION SCHEDULE D-2
COLUMN (G) LINES 1 THRU 6: COMPANY APPLICATION SCHEDULE D-2
COLUMN (H) LINES 1 THRU 6: COLUMN (C) / COLUMN (B)
COLUMN (I) LINES 1 THRU 6 : COLUMN (H) LINES 1 THRU 6 / LINE 7, LINE 8: SUM OF LINES 1 THRU 6

COST OF COMMON EQUITY CALCULATION

LINE NO.			
1	**DCF METHODOLOGY**		
2	DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.93%	SCHEDULE WAR-2, COLUMN (C), LINE 5
3	DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.90%	SCHEDULE WAR-2, COLUMN (C), LINE 13
4	**AVERAGE OF DCF ESTIMATES**	**9.92%**	(LINE 2 + LINE 3) ÷ 2
5	**CAPM METHODOLOGY**		
6	CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE	5.44%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5
7	CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE	5.13%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13
8	CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE	6.83%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5
9	CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE	6.39%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13
10	**AVERAGE OF CAPM ESTIMATES**	**5.95%**	(SUM OF LINES 6 THRU 9) ÷ 4
11	**AVERAGE OF DCF AND CAPM ESTIMATES**	**7.93%**	(SUM OF LINES 4 AND 10) ÷ 2
12	**FINAL COST OF COMMON EQUITY ESTIMATE**	**9.00%**	TESTIMONY WAR

BELLA VISTA WATER COMPANY, INC.
TEST YEAR ENDED MARCH 31, 2009
DCF COST OF EQUITY CAPITAL

DOCKET NO. W-02465A-09-0411 ET AL.
SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	AWR	AMERICAN STATES WATER CO.	3.13%	+	7.99%	=	11.12%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.23%	+	6.72%	=	9.95%
3	WTR	AQUA AMERICA, INC.	3.41%	+	5.32%	=	8.73%
4	**WATER COMPANY AVERAGE**						**9.93%**
5	AGL	AGL RESOURCES, INC.	4.83%	+	5.26%	=	10.08%
6	ATO	ATMOS ENERGY CORP.	4.81%	+	4.74%	=	9.55%
7	LG	LACLEDE GROUP, INC.	4.82%	+	5.10%	=	9.92%
8	NJR	NEW JERSEY RESOURCES CORPORATION	3.75%	+	8.27%	=	12.01%
9	GAS	NICOR, INC.	4.49%	+	5.19%	=	9.67%
10	NWN	NORTHWEST NATURAL GAS CO.	3.70%	+	4.61%	=	8.31%
11	PNY	PIEDMONT NATURAL GAS COMPANY	4.17%	+	4.50%	=	8.68%
12	SJI	SOUTH JERSEY INDUSTIES, INC.	4.10%	+	9.35%	=	13.45%
13	SWX	SOUTHWEST GAS CORPORATION	3.47%	+	5.12%	=	8.59%
14	WGL	WGL HOLDINGS, INC.	4.47%	+	4.25%	=	8.72%
15	**NATURAL GAS LDC AVERAGE**						**9.90%**

REFERENCES:
COLUMN (A): SCHEDULE WAR - 3, COLUMN C
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE)	/	(B) AVERAGE STOCK PRICE (PER SHARE)	=	(C) DIVIDEND YIELD
1	AWR	AMERICAN STATES WATER CO.	$1.04	/	$33.21	=	3.13%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.18	/	36.51	=	3.23%
3	WTR	AQUA AMERICA, INC.	0.58	/	17.00	=	3.41%
4	**WATER COMPANY AVERAGE**						**3.26%**
5	AGL	AGL RESOURCES, INC.	$1.76	/	$36.46	=	4.83%
6	ATO	ATMOS ENERGY CORP.	1.34	/	27.86	=	4.81%
7	LG	LACLEDE GROUP, INC.	1.58	/	32.79	=	4.82%
8	NJR	NEW JERSEY RESOURCES CORPORATION	1.36	/	36.31	=	3.75%
9	GAS	NICOR, INC.	1.86	/	41.45	=	4.49%
10	NWN	NORTHWEST NATURAL GAS CO.	1.66	/	44.82	=	3.70%
11	PNY	PIEDMONT NATURAL GAS COMPANY	1.08	/	25.89	=	4.17%
12	SJI	SOUTH JERSEY INDUSTIES, INC.	1.63	/	39.76	=	4.10%
13	SWX	SOUTHWEST GAS CORPORATION	1.00	/	28.80	=	3.47%
14	WGL	WGL HOLDINGS, INC.	1.48	/	33.09	=	4.47%
15	**NATURAL GAS LDC AVERAGE**						**4.26%**

REFERENCES:
COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT
SURVEY - RATINGS & REPORTS DATED 01/22/2010 (WATER COMPANIES) AND 03/12/2010 (NATURAL GAS LDC's).
COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 02/01/2010 TO 03/26/2010
STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).
COLUMN (C): COLUMN (A) ÷ COLUMN (B)

BELLA VISTA WATER COMPANY, INC.
TEST YEAR ENDED MARCH 31, 2009
DIVIDEND GROWTH RATE CALCULATION

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWR	AMERICAN STATES WATER CO.	6.25%	+	1.74%	=	7.99%
2	CWT	CALIFORNIA WATER SERVICE GROUP	6.00%	+	0.72%	=	6.72%
3	WTR	AQUA AMERICA, INC.	5.00%	+	0.32%	=	5.32%
4	**WATER COMPANY AVERAGE**						**6.67%**
5	AGL	AGL RESOURCES, INC.	5.00%	+	0.26%	=	5.26%
6	ATO	ATMOS ENERGY CORP.	4.50%	+	0.24%	=	4.74%
7	LG	LACLEDE GROUP, INC.	4.50%	+	0.60%	=	5.10%
8	NJR	NEW JERSEY RESOURCES CORPORATION	8.00%	+	0.27%	=	8.27%
9	GAS	NICOR, INC.	5.00%	+	0.19%	=	5.19%
10	NWN	NORTHWEST NATURAL GAS CO.	4.25%	+	0.36%	=	4.61%
11	PNY	PIEDMONT NATURAL GAS COMPANY	4.50%	+	0.00%	=	4.50%
12	SJI	SOUTH JERSEY INDUSTIES, INC.	7.50%	+	1.85%	=	9.35%
13	SWX	SOUTHWEST GAS CORPORATION	5.00%	+	0.12%	=	5.12%
14	WGL	WGL HOLDINGS, INC.	4.25%	+	0.00%	=	4.25%
15	**NATURAL GAS LDC AVERAGE**						**5.64%**

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

BELLA VISTA WATER COMPANY, INC.
TEST YEAR ENDED MARCH 31, 2009
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-02465A-09-0411 ET AL.
SCHEDULE WAR - 4

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	x	(B) { [((M ÷ B) + 1) / 2] - 1 }	=	(C) EXTERNAL GROWTH (sv)
1	AWR	AMERICAN STATES WATER CO.	5.00%	x	{ [((1.69) + 1) / 2] - 1 }	=	1.74%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.75%	x	{ [((1.83) + 1) / 2] - 1 }	=	0.72%
3	WTR	AQUA AMERICA, INC.	0.55%	x	{ [((2.15) + 1) / 2] - 1 }	=	0.32%
4	**WATER COMPANY AVERAGE**						**0.92%**
5	AGL	AGL RESOURCES, INC.	1.00%	x	{ [((1.51) + 1) / 2] - 1 }	=	0.26%
6	ATO	ATMOS ENERGY CORP.	3.50%	x	{ [((1.14) + 1) / 2] + 1 }	=	0.24%
7	LG	LACLEDE GROUP, INC.	3.25%	x	{ [((1.37) + 1) / 2] - 1 }	=	0.60%
8	NJR	NEW JERSEY RESOURCES CORPORATION	0.50%	x	{ [((2.07) + 1) / 2] - 1 }	=	0.27%
9	GAS	NICOR, INC.	0.50%	x	{ [((1.75) + 1) / 2] - 1 }	=	0.19%
10	NWN	NORTHWEST NATURAL GAS CO.	1.00%	x	{ [((1.72) + 1) / 2] - 1 }	=	0.36%
11	PNY	PIEDMONT NATURAL GAS COMPANY	0.01%	x	{ [((2.00) + 1) / 2] - 1 }	=	0.00%
12	SJI	SOUTH JERSEY INDUSTIES, INC.	3.50%	x	{ [((2.06) + 1) / 2] - 1 }	=	1.85%
13	SWX	SOUTHWEST GAS CORPORATION	2.25%	x	{ [((1.10) + 1) / 2] + 1 }	=	0.12%
14	WGL	WGL HOLDINGS, INC.	0.01%	x	{ [((1.46) + 1) / 2] - 1 }	=	0.00%
15	**NATURAL GAS LDC AVERAGE**						**0.39%**

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 01/22/2010 (WATER COMPANIES) AND 03/12/2010 (NATURAL GAS LDC's)
COLUMN (C): COLUMN (A) x COLUMN (B)

BELLA VISTA WATER COMPANY, INC.
TEST YEAR ENDED MARCH 31, 2009
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-02465A-09-0411 ET AL.
SCHEDULE WAR - 5
PAGE 1 OF 4

LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AWR	AMERICAN STATES WATER CO.	2004	0.1524		6.60%		1.01%	15.01	16.75	
2			2005	0.3182		8.50%		2.70%	15.72	16.80	
3			2006	0.3158		8.10%		2.56%	16.64	17.05	
4			2007	0.4074		9.30%		3.79%	17.53	17.23	
5			2008	0.3548		8.60%		3.05%	17.95	17.30	
6			GROWTH 2004 - 2008					2.62%	5.00%		0.81%
7			2009	0.4541		9.50%		4.31%		18.60	7.51%
8			2010	0.4750		10.50%		4.99%		19.00	4.80%
9			2012-14	0.5308		12.00%		6.37%	4.00%	20.00	2.94%
10											
11	CWT	CALIFORNIA WATER SERVICE GROUP	2004	0.2260		9.00%		2.03%	15.66	18.37	
12			2005	0.2245		9.30%		2.09%	15.79	18.39	
13			2006	0.1418		6.80%		0.96%	18.15	20.66	
14			2007	0.2267		8.10%		1.84%	18.50	20.67	
15			2008	0.3842		9.90%		3.80%	19.44	20.72	
16			GROWTH 2004 - 2008					2.15%	6.50%		3.06%
17			2009	0.4070		10.00%		4.07%		21.00	1.35%
18			2010	0.4333		10.50%		4.55%		21.25	1.27%
19			2012-14	0.5192		12.00%		6.23%	2.00%	23.00	2.11%
20											
21	WTR	AQUA AMERICA, INC.	2004	0.4219		10.70%		4.51%	5.89	127.18	
22			2005	0.4366		11.20%		4.89%	6.30	128.97	
23			2006	0.3714		10.00%		3.71%	6.96	132.33	
24			2007	0.3239		9.70%		3.14%	7.32	133.40	
25			2008	0.3014		9.30%		2.80%	7.82	135.37	
26			GROWTH 2004 - 2008					3.81%	10.00%		1.57%
27			2009	-5.8750		10.00%		NMF		136.30	0.69%
28			2010	0.3444		10.50%		3.62%		137.00	0.60%
29			2012-14	0.4400		12.00%		5.28%	6.00%	139.00	0.53%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 01/22/2010
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2004 - 2008

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AGL	AGL RESOURCES, INC.	2005	0.4758		12.90%		6.14%	19.29	77.70	
2			2006	0.4559		13.20%		6.02%	20.71	77.70	
3			2007	0.3971		12.70%		5.04%	21.74	76.40	
4			2008	0.3801		12.60%		4.79%	21.48	76.90	
5			2009	0.4048		14.50%		5.87%	22.95	77.50	
6			GROWTH 2005 - 2009					5.57%	10.00%		-0.06%
7			2010	0.4034		12.00%		4.84%		78.50	1.29%
8			2011	0.4194		12.00%		5.03%		79.00	0.96%
9			2013-15	0.4353		11.00%		4.79%	5.00%	80.50	0.76%
10											
11	ATO	ATMOS ENERGY CORP.	2005	0.2791		8.50%		2.37%	19.90	80.54	
12			2006	0.3700		9.80%		3.63%	20.16	81.74	
13			2007	0.3402		8.70%		2.96%	22.01	89.33	
14			2008	0.3500		8.80%		3.08%	22.60	90.81	
15			2009	0.3299		8.30%		2.74%	23.52	92.55	
16			GROWTH 2005 - 2009					2.96%	7.00%		3.54%
17			2010	0.4044		9.00%		3.64%		94.00	1.57%
18			2011	0.4213		9.50%		4.00%		96.00	1.85%
19			2013-15	0.4630		10.00%		4.63%	3.50%	110.00	3.51%
20											
21	LG	LACLEDE GROUP, INC.	2005	0.2789		10.90%		3.04%	17.31	21.17	
22			2006	0.4093		12.50%		5.12%	18.85	21.36	
23			2007	0.3723		11.60%		4.32%	19.79	21.65	
24			2008	0.4356		11.80%		5.14%	22.12	21.99	
25			2009	0.4760		12.40%		5.90%	23.32	22.17	
26			GROWTH 2005 - 2009					4.70%	6.50%		1.16%
27			2010	0.3592		10.00%		3.59%		22.50	1.49%
28			2011	0.3808		10.50%		4.00%		23.00	1.85%
29			2013-15	0.4167		11.00%		4.58%	4.00%	26.00	3.24%
30											
31	NJR	NEW JERSEY RESOURCES CORPORATION	2005	0.4859		17.00%		8.26%	10.60	41.32	
32			2006	0.4866		12.60%		6.13%	15.00	41.44	
33			2007	0.3484		10.10%		3.52%	15.50	41.61	
34			2008	0.5889		15.70%		9.25%	17.28	42.06	
35			2009	0.4833		14.60%		7.06%	16.59	41.59	
36			GROWTH 2005 - 2009					6.84%	10.50%		0.16%
37			2010	0.4769		15.00%		7.15%		42.00	0.99%
38			2011	0.4727		16.00%		7.56%		41.00	-0.71%
39			2013-15	0.5250		16.50%		8.66%	4.50%	40.00	-0.78%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/12/2010
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2005 - 2009

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	GAS	NICOR, INC.	2005	0.1806		12.50%		2.26%	18.36	44.18	
2			2006	0.3519		14.70%		5.17%	19.43	44.90	
3			2007	0.3758		14.30%		5.37%	20.58	45.90	
4			2008	0.2928		12.30%		3.60%	21.55	45.13	
5			2009	0.3737		13.10%		4.90%	22.93	45.25	
6			GROWTH 2005 - 2009					4.26%	5.00%		0.60%
7			2010	0.3236		11.50%		3.72%		45.50	0.55%
8			2011	0.4000		12.50%		5.00%		45.50	0.28%
9			2013-15	0.4364		11.50%		5.02%	5.00%	45.50	0.11%
10											
11	NWN	NORTHWEST NATURAL GAS CO.	2005	0.3744		9.90%		3.71%	21.28	27.58	
12			2006	0.4085		10.90%		4.45%	22.01	27.24	
13			2007	0.4783		12.50%		5.98%	22.52	26.41	
14			2008	0.4086		10.90%		4.45%	23.71	26.50	
15			2009	0.4224		11.10%		4.69%	24.88	26.53	
16			GROWTH 2005 - 2009					4.66%	3.50%		-0.97%
17			2010	0.4000		11.00%		4.40%		26.60	0.26%
18			2011	0.3966		11.00%		4.36%		26.60	0.13%
19			2013-15	0.3829		9.00%		3.45%	5.00%	28.00	1.08%
20											
21	PNY	PIEDMONT NATURAL GAS COMPANY	2005	0.3106		11.50%		3.57%	11.53	76.70	
22			2006	0.2578		11.00%		2.84%	11.83	74.61	
23			2007	0.2929		11.90%		3.49%	11.99	73.23	
24			2008	0.3087		12.40%		3.83%	12.11	73.26	
25			2009	0.3593		13.20%		4.74%	12.67	73.27	
26			GROWTH 2005 - 2009					3.69%	4.50%		-1.14%
27			2010	0.3273		13.00%		4.25%		72.00	-1.73%
28			2011	0.3235		12.50%		4.04%		71.50	-1.22%
29			2013-15	0.3487		13.00%		4.53%	3.00%	69.00	-1.19%
30											
31	SJI	SOUTH JERSEY INDUSTIES, INC.	2005	0.4971		12.40%		6.16%	13.50	28.98	
32			2006	0.6260		16.30%		10.20%	15.11	29.33	
33			2007	0.5167		12.80%		6.61%	16.25	29.61	
34			2008	0.5110		13.10%		6.69%	17.33	29.73	
35			2009	0.4874		13.10%		6.38%	18.27	29.80	
36			GROWTH 2005 - 2009					7.21%	11.00%		0.70%
37			2010	0.4943		13.50%		6.67%		31.00	4.03%
38			2011	0.5000		14.00%		7.00%		32.00	3.63%
39			2013-15	0.5152		14.50%		7.47%	5.00%	35.00	3.27%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/12/2010
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2005 - 2009

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

BELLA VISTA WATER COMPANY, INC.
TEST YEAR ENDED MARCH 31, 2009
DIVIDEND GROWTH COMPONENTS

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	SWX	SOUTHWEST GAS CORPORATION	2005	0.3440		6.40%		2.20%	19.10	39.33	
2			2006	0.5859		8.90%		5.21%	21.58	41.77	
3			2007	0.5590		8.50%		4.75%	22.98	42.81	
4			2008	0.3525		5.90%		2.08%	23.49	44.19	
5			2009	0.5103		7.90%		4.03%	24.46	45.09	
6			GROWTH 2005 - 2009					3.66%	5.00%		3.48%
7			2010	0.5122		8.00%		4.10%		46.00	2.02%
8			2011	0.5227		8.50%		4.44%		47.00	2.10%
9			2013-15	0.5472		9.00%		4.92%	4.50%	50.00	2.09%
10											
11	WGL	WGL HOLDINGS, INC.	2005	0.3803		12.00%		4.56%	17.80	48.65	
12			2006	0.3041		12.00%		3.65%	18.86	48.89	
13			2007	0.3445		10.40%		3.58%	19.83	49.45	
14			2008	0.4221		11.60%		4.90%	20.99	49.92	
15			2009	0.4190		11.60%		4.86%	21.89	50.14	
16			GROWTH 2005 - 2009					4.31%	5.00%		0.76%
17			2010	0.3435		10.50%		3.61%		50.00	-0.28%
18			2011	0.3673		11.00%		4.04%		50.00	-0.14%
19			2013-15	0.3815		11.00%		4.20%	4.00%	50.00	-0.06%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/12/2010
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6 & 16, SIMPLE AVERAGE GROWTH, 2005 - 2009

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6 & 16, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

BELLA VISTA WATER COMPANY, INC.
TEST YEAR ENDED MARCH 31, 2009
GROWTH RATE COMPARISON

DOCKET NO. W-02465A-09-0411 ET AL.
SCHEDULE WAR - 6

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	(C) DPS	(C) BVPS	(D) VALUE LINE HISTORIC EPS	(D) DPS	(D) BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	(F) DPS	(F) BVPS
1	AWR	7.99%	4.00%	9.50%	4.50%	4.00%	5.50%	2.00%	5.00%	4.93%	10.23%	2.96%	4.57%
2	CWT	6.72%	6.70%	4.75%	1.50%	3.50%	7.00%	0.50%	6.50%	4.35%	6.81%	0.87%	5.55%
3	WTR	5.32%	8.00%	10.00%	6.50%	6.00%	5.50%	8.00%	10.00%	7.71%	3.34%	8.35%	7.34%
4				8.08%	4.17%	4.50%	6.00%	3.50%	7.17%		6.79%	4.06%	5.82%
5	AVERAGES	6.67%	6.23%		5.58%			5.56%		5.66%		5.56%	

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	(C) DPS	(C) BVPS	(D) VALUE LINE HISTORIC EPS	(D) DPS	(D) BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	(F) DPS	(F) BVPS
1	AGL	5.26%	4.50%	3.50%	2.50%	5.00%	8.50%	8.00%	10.00%	6.00%	3.90%	7.25%	4.44%
2	ATO	4.74%	5.00%	5.50%	2.00%	3.50%	4.50%	1.50%	7.00%	4.14%	3.45%	1.58%	4.27%
3	LG	5.10%	3.00%	2.50%	2.50%	4.00%	10.50%	2.00%	6.50%	4.43%	11.34%	2.80%	7.74%
4	NJR	8.27%	7.00%	6.50%	5.50%	4.50%	7.50%	6.00%	10.50%	6.79%	7.91%	8.04%	11.85%
5	GAS	5.19%	3.70%	2.50%	-	5.00%	3.50%	-	5.00%	3.94%	6.95%	0.00%	5.71%
6	NWN	4.61%	5.70%	5.00%	6.00%	5.00%	8.00%	3.00%	3.50%	5.17%	7.04%	4.93%	3.98%
7	PNY	4.50%	6.30%	4.00%	3.50%	3.00%	6.50%	4.50%	4.50%	4.61%	6.06%	4.13%	2.39%
8	SJI	9.35%	11.60%	5.50%	6.50%	5.00%	13.00%	6.00%	11.00%	8.37%	8.62%	9.14%	7.86%
9	SWX	5.12%	7.00%	8.00%	5.50%	4.50%	9.00%	1.00%	5.00%	5.71%	11.62%	3.75%	6.38%
10	WGL	4.25%	-	2.50%	3.00%	4.00%	5.50%	2.00%	5.00%	3.67%	4.40%	2.73%	5.31%
11				4.55%	4.11%	4.35%	7.65%	3.78%	6.80%		7.13%	4.43%	5.99%
12	AVERAGES	5.64%	5.98%		4.34%			6.08%		5.28%		5.85%	

REFERENCES:

COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/22/2010 (WATER COMPANIES) AND 03/12/2010 (NATURAL GAS LDC's)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/22/2010 (WATER COMPANIES) AND 03/12/2010 (NATURAL GAS LDC's)
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THRU 3 (WATER) AND 1 THRU 10 (NATURAL GAS)
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 01/22/2010 (WATER COMPANIES) AND 03/12/2010 (NATURAL GAS LDC's)

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+ [	(A) ß	x (	r_m	-	r_f	)] =	(B) EXPECTED RETURN
1	AWR	k	=	2.36%	+ [	0.80	x (	9.60%	-	5.40%	)] =	5.72%
2	CWT	k	=	2.36%	+ [	0.75	x (	9.60%	-	5.40%	)] =	5.51%
3	WTR	k	=	2.36%	+ [	0.65	x (	9.60%	-	5.40%	)] =	5.09%
4	**WATER COMPANY AVERAGE**					0.73						**5.44%**
5	ATO	k	=	2.36%	+ [	0.75	x (	9.60%	-	5.40%	)] =	5.51%
6	LG	k	=	2.36%	+ [	0.65	x (	9.60%	-	5.40%	)] =	5.09%
7	NJR	k	=	2.36%	+ [	0.60	x (	9.60%	-	5.40%	)] =	4.88%
8	GAS	k	=	2.36%	+ [	0.65	x (	9.60%	-	5.40%	)] =	5.09%
9	NWN	k	=	2.36%	+ [	0.70	x (	9.60%	-	5.40%	)] =	5.30%
10	PNY	k	=	2.36%	+ [	0.60	x (	9.60%	-	5.40%	)] =	4.88%
11	SJI	k	=	2.36%	+ [	0.65	x (	9.60%	-	5.40%	)] =	5.09%
12	SWX	k	=	2.36%	+ [	0.60	x (	9.60%	-	5.40%	)] =	4.88%
13	WGL	k	=	2.36%	+ [	0.75	x (	9.60%	-	5.40%	)] =	5.51%
14	JRAL GAS LDC AV	k	=	2.36%	+ [	0.65	x (	9.60%	-	5.40%	)] =	5.09%
15	**NATURAL GAS LDC AVERAGE**					0.66						**5.13%**

REFERENCES:
COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\,ß\,(r_m - r_f)\,]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 02/05/2010 THROUGH 03/26/2010 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE RISK PREMIUM (RM - RF) USED THE GEOMETRIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2008 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PERI THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2009 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+ [	(A) ß	x (	r_m	-	r_f	)]	=	(B) EXPECTED RETURN
1	AWR	k	=	2.36%	+ [	0.80	x (	11.70%	-	5.60%	)]	=	7.24%
2	CWT	k	=	2.36%	+ [	0.75	x (	11.70%	-	5.60%	)]	=	6.94%
3	WTR	k	=	2.36%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.33%
4	**WATER COMPANY AVERAGE**					0.73							6.83%
5	ATO	k	=	2.36%	+ [	0.75	x (	11.70%	-	5.60%	)]	=	6.94%
6	LG	k	=	2.36%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.33%
7	NJR	k	=	2.36%	+ [	0.60	x (	11.70%	-	5.60%	)]	=	6.02%
8	GAS	k	=	2.36%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.33%
9	NWN	k	=	2.36%	+ [	0.70	x (	11.70%	-	5.60%	)]	=	6.63%
10	PNY	k	=	2.36%	+ [	0.60	x (	11.70%	-	5.60%	)]	=	6.02%
11	SJI	k	=	2.36%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.33%
12	SWX	k	=	2.36%	+ [	0.60	x (	11.70%	-	5.60%	)]	=	6.02%
13	WGL	k	=	2.36%	+ [	0.75	x (	11.70%	-	5.60%	)]	=	6.94%
14	JRAL GAS LDC AV	k	=	2.36%	+ [	0.65	x (	11.70%	-	5.60%	)]	=	6.33%
15	**NATURAL GAS LDC AVERAGE**					0.66							6.39%

REFERENCES:
COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [ß (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 02/05/2010 THROUGH 03/26/2010 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE RISK PREMIUM (RM - RF) USED THE ARITHMETIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2008 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAMI THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2009 YEARBOO

BELLA VISTA WATER COMPANY, INC.
TEST YEAR ENDED MARCH 31, 2009
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. W-02465A-09-0411 ET AL.
SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 $)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.39%	1.90%	10.01%	6.98%	8.10%	7.50%	7.49%	9.86%	10.06%
2	1991	4.25%	-0.20%	8.46%	5.45%	5.69%	5.38%	5.38%	9.36%	9.55%
3	1992	3.03%	3.30%	6.25%	3.25%	3.52%	3.43%	3.43%	8.69%	8.86%
4	1993	2.96%	2.70%	6.00%	3.00%	3.02%	3.00%	3.00%	7.59%	7.91%
5	1994	2.61%	4.00%	7.14%	3.60%	4.21%	4.25%	4.25%	8.31%	8.63%
6	1995	2.81%	2.50%	8.83%	5.21%	5.83%	5.49%	5.49%	7.89%	8.29%
7	1996	2.93%	3.70%	8.27%	5.02%	5.30%	5.01%	5.01%	7.75%	8.17%
8	1997	2.34%	4.50%	8.44%	5.00%	5.46%	5.06%	5.06%	7.60%	8.12%
9	1998	1.55%	4.20%	8.35%	4.92%	5.35%	4.78%	4.78%	7.04%	7.27%
10	1999	2.19%	4.50%	7.99%	4.62%	4.97%	4.64%	4.64%	7.62%	7.88%
11	2000	3.38%	3.70%	9.23%	5.73%	6.24%	5.82%	5.82%	8.24%	8.36%
12	2001	2.83%	0.80%	6.92%	3.41%	3.88%	3.40%	5.95%	7.59%	8.02%
13	2002	1.59%	1.60%	4.67%	1.17%	1.67%	1.61%	5.38%	7.41%	7.98%
14	2003	2.27%	2.50%	4.12%	2.03%	1.13%	1.01%	4.92%	6.18%	6.64%
15	2004	2.68%	3.60%	4.34%	2.34%	1.35%	1.37%	5.03%	5.77%	6.20%
16	2005	3.39%	2.90%	6.16%	4.19%	3.22%	3.15%	4.57%	5.38%	5.78%
17	2006	3.24%	2.80%	7.97%	5.96%	4.97%	4.73%	4.91%	5.94%	6.30%
18	2007	2.85%	2.00%	8.05%	5.86%	5.02%	4.36%	4.84%	6.07%	6.24%
19	2008	3.58%	1.30%	5.09%	2.39%	1.92%	1.37%	4.28%	6.34%	6.64%
20	2009	2.73%	-2.40%	3.25%	0.50%	0.00% - 0.25%	0.15%	4.08%	5.84%	6.87%
21	CURRENT	2.10%	5.60%	3.25%	0.75%	0.00% - 0.25%	0.15%	4.57%	5.75%	6.24%

REFERENCES:
COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (C) THROUGH (D): CURRENT, THE VALUE LINE INVESTMENT SURVEY , DATED 03/26/2010
COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY , DATED 03/26/2010

BELLA VISTA WATER COMPANY, INC.
TEST YEAR ENDED MARCH 31, 2009
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. W-02465A-09-0411 ET AL.
SCHEDULE WAR - 9

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES

LINE NO.		AWR	PCT.	CWT	PCT.	SWWC	PCT.	WTR	PCT.	WATER COMPANY AVERAGE	PCT.
1	DEBT	$ 266.5	46.2%	$ 287.5	41.6%	$ 190.6	62.6%	$ 1,248.1	54.1%	$ 498.2	51.4%
2											
3	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.5	0.2%	0.0	0.0%	0.1	0.0%
4											
5	COMMON EQUITY	310.5	53.8%	402.9	58.4%	113.3	37.2%	1,058.4	45.9%	471.3	48.6%
6											
7	TOTALS	$ 577.0	100%	$ 690.4	100%	$ 304.4	100%	$ 2,306.5	100%	$ 969.6	100%

AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES

LINE NO.											
1		AGL	PCT.	ATO	PCT.	LG	PCT.	NJR	PCT.	GAS	PCT.
2											
3	DEBT	$ 1,675.0	50.3%	$ 2,119.8	50.8%	$ 389.2	44.4%	$ 455.1	38.5%	$ 448.0	31.5%
4											
5	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.5	0.1%	0.0	0.0%	0.6	0.0%
6											
7	COMMON EQUITY	1,652.0	49.7%	2,052.5	49.2%	486.5	55.5%	727.0	61.5%	973.1	68.4%
8											
9	TOTALS	$ 3,327.0	100%	$ 4,172.3	100%	$ 876.2	100%	$ 1,182.1	100%	$ 1,421.7	100%
10											
11											
12		NWN	PCT.	PNY	PCT.	SJI	PCT.	SWX	PCT.	WGL	PCT.
13											
14	DEBT	$ 512.0	44.9%	$ 794.3	47.2%	$ 332.8	39.2%	$ 1,185.5	51.0%	$ 603.7	38.5%
15											
16	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.0	0.0%	100.0	4.3%	28.2	1.8%
17											
18	COMMON EQUITY	628.4	55.1%	887.2	52.8%	515.3	60.8%	1,037.8	44.7%	935.1	59.7%
19											
20	TOTALS	$ 1,140.4	100%	$ 1,681.5	100%	$ 848.1	100%	$ 2,323.3	100%	$1,567.0	100%
21											
22											
23		NATURAL GAS LDC				WATER & LDC					
24		AVERAGE	PCT.			AVERAGE	PCT.				
25											
26	DEBT	$ 851.5	45.9%			$ 674.9	47.8%				
27											
28	PREFERRED STOCK	12.9	0.7%			6.5	0.5%				
29											
30	COMMON EQUITY	989.5	53.4%			730.4	51.7%				
31											
32	TOTALS	$ 1,854.0	100%			$ 1,411.7	100%				

REFERENCE: